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|---|---|---|---|---|---|
| Austria | Sch30 | Indonesia | Rp3700 | Pakistan | Rs25 |
| Bahrain | Din0.900 | Iran | Rls2?? | Philippines | Peso40 |
| Belgium | BFr60 | Israel | Shk4.60 | Poland | Zl 12,000 |
| Cyprus | C£1.00 | Italy | L2200 | Portugal | Esc175 |
| Czech | Kcs35 | Jordan | JD1.20 | Qatar | QR10.00 |
| Denmark | DKr13 | Korea | Won 2000 | S Arabia | SR9.00 |
| Egypt | E£3.50 | Kuwait | Fils.500 | Singapore | S$4.10 |
| Finland | FM10 | Lebanon | L£1,600 | Spain | Pta175 |
| France | FFr8.00 | Lux | LFr60 | Sweden | SKr13 |
| Germany | DM3.00 | Morocco | MDh16 | Switz | SFr2.70 |
| Greece | Dr200 | Neth | Fl 2.50 | Thailand | Bht50 |
| Hungary | Ft145 | Nigeria | Naira15 | Tunisia | Din0.800 |
| Iceland | IKr180 | Norway | NKr13.00 | Turkey | L5000 |
| India | Rs20 | Oman | OR1.20 | UAE | Dh8.00 |

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

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Friday November 22 1991

D 8523A

MANAGEMENT
How to make it in Japan
Page 12

World News

## Bush wants Mideast talks to resume in Washington

The US administration is expected to propose today that the next phase of direct talks between Israel and its Arab neighbours be held in Washington, probably within the next two weeks. Page 16

Israel's opposition Labour party adopted a political platform which recognises the national rights of the Palestinian people. Page 4

**Report retracted**
A Yugoslav photographer who reported that 41 children had been massacred near Vukovar, allegedly by Croatian troops, retracted key elements of his story, admitting he had not seen or counted any bodies. Reuters, which issued the story on Wednesday, withdrew it on the grounds that it contained incorrect information.

**Freed hostage ill**
Doctors told freed US hostage Thomas Sutherland he must stay in hospital in Wiesbaden, postponing his return to the US because of a stomach ulcer.

**Magistrates to strike**
Italy's 7,000 magistrates are to stage a one-day strike to protest at what they regard as unwarranted interference by President Francesco Cossiga. Page 3

**Indian official held**
A Indian government official was arrested for allegedly colluding with a Sri Lankan rebel militia suspected of being behind the assassination of former premier Rajiv Gandhi.

**Refugees drowned**
Sixteen people were drowned and another 119 are missing, feared dead, after a boat carrying about 200 Haitian refugees was wrecked off Cuba.

**US to pay Iran**
The US and Iran will shortly reach agreement on a payment of $275m to Tehran relating to undelivered US-made weapons ordered by the Shah of Iran. Page 4

**Indonesia rebuked**
The European Parliament urged the EC and UN to ban arms sales to Indonesia. It joined Australian premier Bob Hawke in demanding an inquiry into the shooting of mourners in East Timor.

**Romanian guarantees**
Romania's parliament adopted a new constitution 23 months after communist rule was overthrown, guaranteeing pluralism, human rights and a free market. Page 3

**Vietnam frees writer**
France welcomed the release of Duong Thu Huong, one of Vietnam's most prominent writers, and said it would improve ties with Hanoi.

**Mogadishu battle**
Heavy fighting between two factions of the United Somali Congress raged in the Somali capital of Mogadishu. The Red Cross said hundreds of wounded people were lying outside overflowing hospitals.

**Stamp sets record**
A dull 1904 stamp with a smudgy postmark fetched a record £33,000 ($59,300) for a 20th century British stamp at Sotheby's, London.

Business Summary

## US improves access for foreign airlines

US aviation authorities significantly improved the access of foreign airlines to secondary cities in the US by lifting restrictions on a two-year old "Cities Programme".

The move comes in response to petitions from more than two dozen domestic US airports which have been seeking international services. Page 16

MCDONNELL Douglas, financially stretched US aerospace group, which this week reached a preliminary agreement to sell 40 per cent of its commercial aircraft operations to Taiwan Aerospace for $2bn, said it was still talking to seven other Asian companies about joining the deal and thinks at least one may take a 9.9 per cent stake in the business. Page 17; McDonnell Douglas, Page 18

SAINT Louis, French sugar and paper group, made a paper offer worth FFr4.3bn ($760m) to buy out the rest of Arjomari-Prioux, paper company in which it holds a controlling 41.42 per cent stake. Page 17

GENERAL Electric of the US is determined to repair its damaged relations with Rolls-Royce, UK aircraft engine manufacturer. Page 16; GE near accord, Page 7

JAPAN has been urged by foreign business leaders to move faster in removing barriers to imports and inward investment. Page 7

US unemployment: An unexpectedly sharp rise in the number of workers seeking unemployment insurance raised fresh doubts about the health of the US recovery. Page 6

INTERNATIONAL Business Machines, US computer group, is negotiating to take a minority stake in the computer aided design manufacturing and engineering division of Dassault, French aircraft group. Page 17

SUZUKI Motor, Japanese car and motorcycle maker, posted a 3.2 per cent rise in interim pre-tax profits to Y10.56bn ($81m) – the result of a sharp decline in operating profits being offset by non-operating profits. Page 19

BANQUE Bruxelles Lambert, Belgium's second largest bank, announced a 35 per cent rise in annual net profits to BFrs4.5bn, and plans to step up the dividend. Page 17

AEG, German electricals company owned by Daimler-Benz, is to regain control, after 46 years, of the heavily loss-making east German railway producer Lokomotivbau-Elektrotechnischen Werke (LEW). Page 18

JAPAN'S leading trading companies announced disappointing non-consolidated interim results to September. Sales were affected by the slowing economy. Page 19

WESTPAC Banking Corporation, leading Australian bank, blamed recession and bad debts for a fall in profitability. Australian banks subdued, Page 19

SANDVIK, Swedish speciality steel and carbide group, reports a 30 per cent drop in nine-month profits (after financial items) to SKr1.49bn ($254.7m). Page 18

# Belgrade plans to resettle Serbs in occupied Croatia

By Laura Silber in Belgrade

SERBIA plans to resettle Serb refugees in villages abandoned by Croats who have fled the fighting and civil war in the breakaway republic of Croatia.

The plan, which refutes Serbian denials that the republic, led by Mr Slobodan Milosevic, intends to carve a greater Serbia out of Croatia, involves moving thousands of people, mostly Serbs, to those areas in Croatia which have already been seized by the Serb-dominated federal army.

Mr Mile Jankovic, the programme organiser, said in an interview yesterday the resettlement programme amounted to a "test case" which could be applied elsewhere in Yugoslavia.

"This may be a solution because it is obvious that we [Serbs and Croats] cannot live together, and a demarcation line is necessary."

The programme, which was drawn up at a recent meeting of the self-proclaimed Serbian National Council, which represents ethnic Serbs from the eastern Croatian regions of Slavonia and Baranja, has already started.

Mr Jankovic said "6,000 refugees have already applied for temporary resettlement. There are 3,000 empty houses in Baranja." More than 300,000 people are already estimated to have been displaced by the war.

The council had agreed to "temporarily confiscate all abandoned property for the resettlement of refugees". Mr Jankovic said this was to prevent abandoned homes from being looted.

He accused the Croatian government of not taking similar measures to protect abandoned Serb villages in other parts of the republic.

According to Borba, a Belgrade daily newspaper, the new settlers have been promised the right to farm the land and look after livestock abandoned during the fighting. A total of about 15,000 people will be involved in the programme.

Mr Jankovic denied local Serbs in Slavonia and Baranja intended permanently to take over Croats' private property.

"We took an inventory of all Croatian property, and then sealed the houses shut. Those refugees who have opted to be transferred to Baranja have been told this is a temporary solution."

But an article published recently in a new Serbian government publication implied the plan effectively meant the annexation by Serbia of parts of Croatia.

Mr Jovan Ilic, a Belgrade geography professor and author of the article, suggested that the redrawing of Serbia's border with Croatia was aimed at protecting Serbs in Croatia.

"It would be just to attach a sizeable part of east Slavonia Continued on Page 16

Ancient hatreds, Page 2

# G7 agrees debt deal with Soviet republics

By Our Foreign Staff

THE world's leading industrial nations yesterday agreed a three-point package to help the Soviet Union and some republics overcome difficulties repaying foreign debt.

In a joint communiqué, the Group of Seven (G7) countries and republican leaders agreed to defer repayments on Soviet foreign debt of about $70bn – worth $3.6bn – and maintain support for short-term credit lines by western export credit agencies.

The communiqué also held out the prospect of emergency financing of up to $1bn but this ran into resistance from the republics over a proposal to use gold as collateral.

The agreement is intended to maintain the creditworthiness of the Soviet Union and its republics. West German banks, the biggest private sector lenders, responded coolly to the accord when it became apparent that banks were being called on to accept payment deferrals.

The statement came after four days of talks between the senior finance ministry officials of the G7 and top-level representatives of the republics and the Soviet centre. Both sides said they were satisfied with the outcome.

Mr David Mulford, US Treasury under-secretary for international affairs, and the senior US delegate at the talks, said: "We have made some extremely important progress at these meetings."

Mr Ivan Silayev, the Soviet prime minister, told a news conference: "We agreed that apart from deferral of this $3.6bn we badly need another $1bn to enable the economy to function normally."

But, he added: "We [the central and republican authorities] couldn't agree to a gold swap for physical and political motives. It is a very painful question for our society."

The document was agreed by eight of the 12 republics – the Russian Federation, Byelorussia, Kazakhstan, Armenia, Moldova, Kyrgyzstan, Tajikistan and Turkmenistan – and Union authorities.

The G7 deputy finance ministers signed on behalf of the US, Japan, Germany, France, Britain, Italy and Canada.

The joint communique said the Soviet parties had asked for "additional emergency external assistance, going beyond food aid and other programmes under consideration or already in place".

The G7 offered:

● deferral of principal repayments until the end of next year on medium and long-term official external debts contracted before January 1, 1991.

Continued on Page 16
Agreement details, Page 2
Energy treaty, Page 2

Russian president Boris Yeltsin, in Bonn yesterday at the start of a three-day visit to Germany, makes a point in reply to a welcome by Chancellor Helmut Kohl. The leaders agreed a policy of close co-operation. Report, Page 2

# US and EC in farm talks crisis

By William Dullforce in Geneva and David Gardner in Brussels

THE EUROPEAN Community and the US have failed to resolve their differences over farm subsidies, plunging the Uruguay Round trade talks once again into crisis.

After only one day of discussion in Geneva with US farm under-secretary Mr Richard Crowder, Mr Guy Legras, EC director-general for agriculture, returned yesterday to Brussels. EC officials later claimed no progress had been made on any of the main points of contention concerning reform of world farm trade.

Mr Crowder is due to return to the US today. Both sides refused to talk of a breakdown but a US official said "there is still a cloud over the farm talks and over the Round".

In an attempt to resume control of the situation, Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade (Gatt), yesterday presented negotiators from eight leading farm-exporting countries with "draft working papers" intended to serve as a blueprint for the negotiation.

Mr Dunkel's papers set out commitments governments would be expected to make to reduce subsidies in three areas – export competition, domestic supports and border protection. They pinpoint the remaining stumbling blocks but leave open items such as the size of the reductions and the base year from which the cuts should be calculated.

Brussels and Washington sent their top farm negotiators to Geneva on Tuesday to fill in the details of the accord on farm reform, which seemed to be within their grasp after US President George Bush had scaled down US ambitions at the EC-US summit meeting in The Hague on November 9.

The two big trading powers agreed to negotiate a deal that would reduce subsidies by 35 per cent and other farm supports by 30 per cent over five or six years. An EC-US deal on agriculture is the catalyst for which negotiators from more than 100 countries are waiting to complete new international trade agreements in the Uruguay Round.

EC officials claimed the US had had second thoughts over the deal outlined in The Hague, while US officials complained that the EC had hardly moved from its "pre-Hague" positions. After President Bush's concession at The Hague there was resistance in Congress to making "unwise concessions" to the EC.

In Brussels Mr Ray MacSharry, EC farm commissioner, said the Twelve were "at the limits of what we can offer. There are political realities out there which we have to take into account."

Trade diplomats refused to accept that the Uruguay Round was on the verge of final collapse. Mr Dunkel's initiative was seen as buying time, to enable the EC and US to "come to their senses".

US stays calm over stalled talks, Page 7; Editorial comment, Page 14

# Dutch leader says treaty on Emu is not binding

By David Marsh and Ronald van de Krol in the Hague

DUTCH government leaders in London today are due to spell out that the planned European Community treaty on monetary union will not irrevocably bind any country to the goal of a single currency.

In the face of German and French objections, the Dutch presidency of the EC is intent on maintaining a generalised "opt-out" clause for passage to the third and final stage of Emu, which could take place towards the end of the 1990s.

A senior Dutch official said the draft treaty on Emu, put forward last month, pre-supposes "a moment of political reflection" in 1996-97 for all EC governments - not just Britain - about the desirability of moving to full monetary union.

He said: "The idea behind the text is that governments can say, 'well, OK, you are of the opinion that we can take part in the third stage but our national parliament says we are not yet able to do so'. This question is for all of us. There is no difference between the Germans, the Dutch, the Belgians and the Danes. It is up to each individually to make up their minds."

This position seems likely to be made clear when Mr Ruud Lubbers, the Dutch prime minister, visits London today for talks with Mr John Major, his British counterpart.

This is the latest of Mr Lubbers' missions to Community capitals ahead of the Maastricht summit on December 9 and 10. Mr Lubbers will be accompanied by Mr Wim Kok, finance minister and deputy prime minister.

The Netherlands hopes the non-binding nature of the treaty on monetary union to be agreed in the Maastricht summit in December will be balanced by the planned "declaration" stating EC members' "strong preference" to move quickly to stage three – to be signed by all except Britain.

"For us, it is an absolute necessity that this single currency – the final stage of Emu – will not disappear beyond the horizon," the official said.

The convoluted manoeuvring on the opt-out clause – which the Dutch prefer to call "the non-coercion clause" – has been motivated above all by desire to avoid a British veto of the monetary treaty.

The complexity of the wrangling has also been increased by other countries' fears that Germany may eventually wish to use the opt-out clause itself.

To allay these worries, Germany has emerged as the strongest opponent of the clause being applied to any other country apart from Britain. Supported by the French, Bonn argues that the generalised exemption would significantly lower the importance of next month's planned treaty accord.

Only as recently as last week, Chancellor Helmut Kohl told visiting Belgian deputies that Germany would not sign the treaty if the exemption clause were made general.

Major wins backing, Page 16

**Weekend FT**

Tomorrow: A ticket to ruin – the rise and collapse of a giant of the air

●

All change: politics on the Moscow metro

CONTENTS



**Testing times ahead for the Belgian prime minister**

A recent poll showed that Mr Wilfried Martens was still the most popular choice for Belgian prime minister, if the king agrees, Mr Martens will try to assemble his 10th coalition. Holding it together could test even his legendary talent for conciliation. Page 3

MARKETS

**STERLING**
New York lunchtime: $1.7975
London: $1.7975 (1.796)
DM2.8675 (2.8775)
FFr9.80 (9.8375)
SFr2.5475 (2.555)
Y232.75 (233.0)
£ Index 91.2 (same)

**GOLD**
New York Comex Dec $ 368.6 (364.7)
London: $365.55 (363.05)

**N SEA OIL** (Argus)
Brent 15-day Jan $20.775 (20.875)

Chief price changes yesterday: Page 17

**DOLLAR**
New York lunchtime: DM1.595
FFr5.45
SFr1.41745
Y129.55
London: DM1.5955 (1.6025)
FFr5.4525 (5.4775)
SFr1.4175 (1.4225)
Y129.5 (129.75)
$ Index 62.8 (62.9)
Tokyo close: 129.55

US lunchtime rates
Fed Funds: $4\frac{15}{32}$%
3-mo Treasury Bills: 4.524%
Long Bond: $100\frac{1}{32}$
yield: 7.956%

**STOCK INDICES**
FT-SE 100: 2,463.5 (-9.1)
FT-A All-Share: 1,190.69 (-0.3%)
FT-SE Eurotrack 100: 1,071.97 (-4.03)
New York lunchtime: DJ Ind. Av. 2,921.06 (-8.95)
S&P Comp 377.75 (-0.78)
Tokyo: Nikkei 23,177.84 (-22.02)

**LONDON MONEY**
3-month Interbank: $10\frac{9}{16}$% ($10\frac{5}{8}$%)
Liffe long gilt future: Dec $94\frac{7}{32}$ ($95\frac{1}{32}$)

Russian and German leaders confront sensitive problems of power, status and sovereignty

# Yeltsin and Kohl tread diplomatic tightrope

By **Quentin Peel** in Bonn

CHANCELLOR Helmut Kohl of Germany went as far as he could yesterday to acknowledge the new status and importance of Russia without recognising it as a sovereign state.

Looking grim and unhappy alongside Mr Boris Yeltsin, the Russian president, he did everything he could not to abandon his old friend and ally, Mr Mikhail Gorbachev, president of the crumbling Soviet state.

He issued a joint declaration with Mr Yeltsin committing both sides to the closest future co-operation in international relations and economic affairs.

The two sides declared that they had no territorial claims on each other, and would not raise any in the future – a solid reassurance to Russia over any possible German claim to what used to be Königsberg, now Kaliningrad.

Although there was no discussion of additional credits or financial assistance, according to Mr Theo Waigel, the German finance minister, the key point for Germany was agreement that Russia would participate actively and directly in working out *a legally binding* structure to service the external debts of the Soviet Union.

However, signs and body language said much more when the leaders of the two countries set to emerge as the twin poles of central and eastern Europe met in Bonn. Mr Kohl wore a green jacket and grey socks, immediately seen by the German press as a sign that it was no proper state visit – in spite of the honour guard at the door.

He looked absolutely miserable as he read out a speech of welcome to his Russian visitor, hero of the abortive August putsch in Moscow, indeed the saviour of Mr Gorbachev himself. "We greet in you the man who acted at an historic moment in August," he said, and left it at that.

They had had "an extraordinarily intensive exchange of views" and had now signed a "joint declaration" (put in inverted commas in the text of his speech, to emphasise its less than statelike status.)

There was little doubt on the German side that the sudden announcement of the return of Mr Eduard Shevardnadze as Soviet foreign minister had taken some of the gloss of Mr Yeltsin's first major exercise in building Russian, not Soviet, international relations.

As for Mr Yeltsin, he expressed satisfaction with his reception, but then insisted *repeatedly that both states* must now work to put their relations on a proper treaty basis.

He declared that the "union of sovereign confederal states" to be inaugurated on November 25 would have no constitution, and therefore that in only four days' time, Russia would indeed be a "sovereign state under international law."

He even managed to cast a little doubt, by implication, on the position of Mr Gorbachev. Asked if he thought the Soviet leader would be president of the new confederation, he simply forgot to answer.

The one moment of good humour between the two leaders ironically concerned the case of Mr Erich Honecker, the former East German communist leader, whose return from Moscow to face trial in Germany Mr Kohl is seeking.

The Chancellor teasingly insisted that Mr Yeltsin should say what would happen to Mr Honecker. The Russian leader replied that it was up to Mr Gorbachev.

"I have taken so many competences from him. I might at least leave him this one," he said.

*An honour guard of soldiers lines up to welcome President Yeltsin to Bonn yesterday*

# Irish ponder the future of their neutrality

## Dublin needs European union for prosperity, writes **Tim Coone**


WHEN Nato was formed in 1948, the Irish prime minister, Mr John Costello, said: "Partition [of Ireland] must end before Eire will consider entering into a defence pact with the western European countries."

Irish neutrality, which earned Winston Churchill's wrath during the Second World War, has been a central tenet of the country's foreign policy since 1921, when the 26 counties which make up today's republic won their independence from the United Kingdom. Now, however, almost half a century since Mr Costello uttered those words, Ireland views European political union as the key to future prosperity.

As European Community leaders prepare for their summit next month in Maastricht, Dublin displays little of the hesitation and insularity manifesting itself on the English side of the Irish Sea. While Ireland obviously has serious concerns to pursue at Maastricht (notably a desire to see a doubling of EC structural funds for the Community's poorer nations, including Ireland, and worries that a new treaty might compromise the country's constitutional ban on abortion) Dublin has positioned itself in the fast track to European political and monetary union.

Irish car registration plates carry the symbol of the 12-starred European flag. The European banner flutters alongside its Irish green, white and orange counterpart over many public buildings and banks. In this atmosphere of Euro-dedication there are emerging signs that even the neutrality policy may eventually be jettisoned.

A Foreign Ministry spokesman says: "If the Community devises a defence policy of itself and for itself, we will consider participating in it." He says Ireland's recent participation as an observer in the Western European Union meetings to discuss the crisis in Yugoslavia is a "clear signal" of Ireland's wish to work out a common foreign and security policy (CFSP) at Maastricht.

Prime Minister Charles Haughey, in a speech to a recent conference organised by the Irish Council of the European Movement, pointed out that the "sensitive" issue of security policy was "being made the subject of joint action for the first time". He said Ireland did "not rule out the possibility of majority voting for limited implementing measures, if these can be clearly defined and if adequate safeguards can be built into the new treaty".

However, his words "sensitive", "limited", "clearly defined" and "adequate safeguards" demonstrate that Ireland's policy of neutrality cannot be altered simply or quickly.

Ireland still prefers to draw a distinction between security and defence. It will support without hesitation global security issues such as disarmament and peacekeeping operations, but military alliances remain a delicate issue to be left for later.

Mr Haughey said: "We take the view that the framing of a common defence policy is something for the future... to be taken up when the CFSP is reviewed in five or six years' time." At that point, he said, "if the Community were to develop its own defence arrangement for its security, then Ireland would consider participating."

Neutrality is not enshrined in Irish law, but there is a widespread belief that its abandonment would have to involve a referendum. Central to any referendum would be whether Europe remained linked to Nato: Irish politicians are deeply uneasy about such a link because this alliance, in their view, could too easily involve Ireland in military action beyond EC frontiers. Ireland politically supported the allied action in the Gulf War and allowed Shannon airport to be used for refuelling military aircraft. It was acting in line with EC and UN policy, not Nato's.

However, other Irish politicians take the view that Ireland should move more rapidly. Mr Jim O'Keefe, foreign affairs spokesman for the opposition Fine Gael party, says: "I believe our approach to political union should not be restricted by outdated notions of neutrality." The government's policy is "one of a series of winks and nods". A "clear and *full debate*" is needed.

That debate is not expected until after Maastricht, when the government produces in the New Year its promised White Paper on the expected treaty. Mr Haughey has said Ireland's acceptance of any treaty must be ratified by a referendum because of any possible implications for the Irish constitution and its policy of neutrality.

A precedent was established after Ireland signed the Single European Act. Mr Raymond Crotty, a Trinity College economist and prominent "Euro-sceptic", challenged the decision in the Constitutional Court and forced the 1987 referendum. It passed by a comfortable 70 per cent, but, in ratifying the act, Ireland again said this would not affect its "long-established policy of neutrality".

Ideally, the Irish government would like the EC to adopt its own neutrality-driven views of defence with a greater emphasis on peacekeeping, of which Ireland has considerable experience. Almost 1,000 of its 12,000-strong armed forces are serving overseas with UN peacekeeping missions, mostly in Lebanon, and it is likely to provide more should UN or EC troops be sent to Yugoslavia.

Meanwhile, Anglo-Irish relations, which in the tense post-independence years underpinned Ireland's stance on neutrality, are becoming increasingly irrelevant in the new pan-European view of many Irish politicians: Irish co-operation on security matters at European level is already a fact, and British and Irish troops now co-ordinate to fight the IRA.

As Irish historian Professor J.J. Lee noted in his recent award-winning book, Ireland 1912-1985, "The most frequent official justification for neutrality was the border. Yet neutrality reinforced partition... It is not clear where its longer-term importance lies. And it certainly did not translate into postwar [economic] performance."

See UK news

# Poland warned on election promises

By **Christopher Bobinski** in Warsaw

POLAND'S economic achievements of the past two years could be nullified if the incoming government adopts potentially inflationary election promises, Mr Leszek Balcerowicz, the finance minister, warned yesterday.

He was referring to last month's inconclusive election in which many candidates, some of whom may now form the next government, promised to reverse Poland's recession in ways which risk re-igniting inflation.

The ballot on October 27 produced a fragmented parliament, which meets for the first time next Monday. The present government, including Mr Balcerowicz, will then resign and will be asked to continue in a caretaker role while a new government is formed.

President Lech Walesa has promised to reveal the name of his nominee for the top government post at Monday's meeting. Mr Balcerowicz yesterday declined to comment on whether he saw himself in the next cabinet. "There is so much speculation in the air and I don't want to contribute to it," he said.

Summing up the two years in which he has headed the economy, he said that maintaining growth in foreign trade, as well as low tariffs and currency convertibility had been a big achievement.

Foreign currency reserves had also stayed at a relatively high $6.7bn (£3.8bn) at the end of August, when Poland's external debt reached $44.3bn. This figure includes $10.5bn owed to western commercial banks grouped in the London Club.

Mr Balcerowicz also claimed success in privatising retail trade, with 75 per cent of all sales now being conducted by private retailers as opposed to 5 per cent in 1989.

# Yugoslav war about the past

**Judy Dempsey** on the display of ancient hatreds in today's fighting

ON Wednesday night, Belgrade television broadcast what so far has been one of the most horrific episodes of the civil war between Serbs and Croats in the republic of Croatia. During prime viewing time it showed film of mutilated bodies in which the victims' brains had been pulled out, and their eyes had been gouged.

For four hours, viewers were shown gruesome scenes which, to the older generation, were reminiscent of the civil war which took place in Yugoslavia in the early 1940s.

The intention of Belgrade television, the mouthpiece of Serbian President Slobodan Milosevic, was to convey the scale of the alleged atrocities which it claimed had been committed against Serbs by the Croats. Instead of a passionate plea for peace, the film was intended to generate anger among Serbs.

In Zagreb, the capital of Croatia, similar images have been broadcast. Night after night, both television stations maintain the hysteria of war. These scenes of evil appear to serve one main function: they deepen the sense of revenge and hatred among both sides, and among all generations.

The fall of the Croatian town of Vukovar to the Serb-dominated army this week will not stem this hatred. Nor will it pacify the Serb-dominated army and Serb nationalist paramilitary units. If anything, western diplomats and historians now believe that the fighting will get worse.

"Croats, understandably, will seek revenge for Vukovar," a diplomat said, adding that Croat nationalists would drive out Serbs living in non-occupied parts of the republic. He said the Serbs, whom Mr Milosevic plans to resettle in the regions of Baranja and Slavonia in eastern Croatia which have already been seized by Serbia, would also fight on.

"Serbia and the army will try to capture the Slavonian city of Osijek [in eastern Croatia]. Even if they fail, Croats and Serbs who remain in the villages will seek revenge against each other. The war has entered a new phase. It is unstoppable," he said.

The chances that the United Nations will send peace-keeping troops into Croatia now appear remote. "There is no peace to be kept," a military attache said yesterday.

Indeed, what fragile peace there is in the ethnically-mixed republics of Bosnia-Hercegovina and Macedonia will only be maintained if the UN decides quickly to send troops to those regions. The growing consensus among diplomats who have served in Yugoslavia, and among historians who understand the region, is that the only constructive thing the international community can do is to contain the fighting.

Against the background of propaganda and deaths – unofficial estimates suggest that at least 10,000 people have died in Croatia since June 25 – the reasons behind the civil war have become confused and distorted.

In Serbia in particular, Mr Milosevic has repeatedly demanded political autonomy for the 600,000-strong ethnic Serb community in Croatia on the grounds that they will be discriminated against in an independent Croatia. Yet since 1987, when Mr Milosevic was catapulted into power on a wave of Serbian nationalism, he has suppressed the cultural, ethnic and political rights of the 2m ethnic Albanians in the southern, Serbian-controlled province of Kosovo.

As Mr Ibrahim Rugova, leader of the Democratic League of Kosovo, recently said: "The people who have died in Kosovo over the past year are not victims of a war, but victims of terror of the Serbian state; they are victims of the most brutal breaking of the rights of men."

The Croatian government, which was elected on a nationalist platform last year, partly in reaction to Mr Milosevic's thinly disguised goal of carving a greater Serbia out of Croatia, now says it will grant greater ethnic and political rights to the Serbs.

"The tragedy for Croatia is that it made the offer too late," a Croat historian said.

The reason is that since June 25, when Croatia declared its independence, the fighting has had the effect of radicalising Croatian – and Serbian – society.

Power no longer rests in the hands of politicians, but among local nationalists and army commanders.

This has meant that compromise and negotiation have had little place in a war which is no longer just about ethnic rights. It is a war about the past.

This past is meticulously and fairly documented in Mr Aleksa Djilas' new book, The Contested Country, which shows how the different notions of Croatian and Serbian statehood and national consciousness proved irreconcilable when the Kingdom of Serbs, Croats and Slovenes (later called Yugoslavia) was created out of the ruins of the Habsburg and Ottoman empires in 1918.

The struggle to assert their respective statehoods and identities reached its ignominious climax during the Second World War, in what Mr Djilas' father, the writer Mr Milovan Djilas, calls "the civil war within a war". Wide-scale atrocities were committed by the Ustashas, the Nazi-backed Croatian independent state, against Jews and Serbs in Croatia, and by the Chetniks, Serbian nationalist/royalist fighters, against the Moslems in Bosnia.

The memory of those massacres and the pursuit of these two statehoods – which Tito's Yugoslav Communists also brutally suppressed, but in the name of "Yugoslavism", after 1945 – has now resurfaced with a vengeance.


# Steel pay dispute deepens

By **Christopher Parkes** in Bonn

GERMAN steel manufacturers yesterday responded to union demands for a 10.5 per cent pay increase with a proposal to postpone negotiations for six months.

In the meantime, they were prepared to give all employees an interim increase of DM100 (£34.60) a month. They said controversy over the economic condition of the steel industry made a delay advisable. By next May it would be possible to see if the IG Metall union's forecast of an impending upswing was correct.

The proposal, instantly dismissed by union officials as "cheek", was the first offer in the three negotiating sessions held in the 1992 steel industry pay round. The 1991 agreement expired at the end of October.

The employers' stance marks a small strategic shift in what threatens to become a war of nerves between IG Metall and much of Germany's engineering sector.

Steel makers, suffering from falling prices, flat demand and the highest labour costs in Europe are also under pressure from the government to keep pay rises below 5 per cent.

# Soviets to sign energy charter

By **Andrew Hill** in Brussels

THE Soviet Union "and its republics" are expected to sign the European energy charter in The Hague next month, but the problem of who controls Soviet energy policy is still overshadowing the basic legal agreement which will enforce the charter provisions.

The energy charter – which will be signed by more than 30 countries, including the EC, US and Japan – is supposed to help the Soviet Union exploit its abundant natural resources.

Mr Charles Rutten, chairman of the energy charter conference, said the third plenary session, which ended yesterday, had solved all the key outstanding issues on the charter text.

That included agreeing compromise clauses in the sensitive area of sovereignty over natural resources, and conceding that some states in central and eastern Europe might require a transition period to implement some provisions of the charter.

Mr Rutten hoped the basic agreement, which would set up the institutional framework for the charter, would be completed by April.

● FT Conference on Spain

# Industry 'will have to foot $12bn environment bill'

By **Tom Burns** in Madrid

MR Jose Borrell, Spain's public works minister, warned yesterday that domestic industry would have to spend $12bn (£6.7bn) over the next five years to meet the EC's environmental requirements.

He said his department had already begun to take drastic action against companies that caused ecological damage.

In the most detailed public breakdown to date of the environmental clean-up task facing Spain, Mr Borrell said $6.5bn would have to be spent on converting industrial plant, with the balance invested in new production facilities.

The total figure stated by the minister represents a huge burden for key industries. Spain's chemical companies, for example, would be obliged to shoulder 40 per cent of the investment burden and the energy sector would be responsible for a further 31 per cent.

Speaking on the last day of an FT conference on Spain's Role in Europe, Mr Borrell said domestic companies could expect less money to help them adapt to stricter environmental standards than some other European countries.

# Moscow debt deferral deal with G7

*The following are extracts from the Memorandum of Understanding on external debt signed with the Group of Seven in Moscow yesterday.*

The parties confirm that: (a) the Memorandum of Understanding on external debt of October 28 has now been signed without any reservation and has unconditionally entered into force with respect in the parties which have signed the said memorandum.

Without prejudice to the immediate entry into force of *the Memorandum of Under*standing the parties have undertaken to conclude, before the end of November this year, a special agreement on the allocation of the responsibility for the repayment and servicing of the external debt of the USSR as well as all its assets. The parties will adopt the necessary measures aimed at mobilising additional foreign exchange, as well as to conserve foreign exchange, for the USSR Vnesheconombank (VEB) which has been authorised to service the debt in accordance with the Memorandum.

The USSR Vnesheconombank subsidiaries and affiliates, and their branches, will seek clarification of their situation from the competent authorities of the countries in which they are located.

The parties will keep the G7 and other creditor countries informed about progress in implementing these commitments, including provision of full statistical information on debt service.

They will put in place, work*ing with the International* Monetary Fund, as a matter of the highest priority, appropriate macro-economic policies, which will address in particular the following issues: reducing fiscal deficits, public expenditure and monetary growth and liberalising prices and the exchange rate. Accordingly, they intend, in full consultation with the IMF, to adopt and implement during the first quarter of 1992 comprehensive and ambitious macro-economic and structural adjustment programs taking into account the recommendations of the IMF. Aware of the high degree of their economic interdependence, the parties will seek to maintain free inter-republican trade. The parties also accept the need for full disclosure of existing economic and financial data in accordance with international standards and are prepared to improve their data collection systems;

they will seek quick mobilisation and disbursement of untied credits already committed by other countries;

the memorandum is open for *signature by other successors* to the USSR.

The parties are at present facing a critical situation in the economic and financial field. Therefore, they have asked for additional emergency external assistance, going beyond the food aid and other programmes under consideration or already in place. In response to all of the above, the G7 countries stand ready to support the measures listed below:

(a) a deferral of payments, on principal only, on medium- and long-term official external debts contracted before 1 January 1991. The parties will seek comparable treatment from all other creditors, including commercial banks, other creditor countries and suppliers. The deferral will cover the principal payments on medium- and long-term credits falling due in the period at the end of 1992; it may continue beyond 31 March 1992 provided satisfactory progress is made. . . in particular the adoption of programmes prepared in full consultation with the IMF and taking into *account the recommendations* of the IMF and the mobilisation of foreign exchange. For the deferral to remain valid, payments on non-deferred amounts including interest will have to be made on due dates. The implementation of this measure will require negotiations between the debt manager and all creditors;

(b) the maintenance of short-term credits by their export credit agencies, which will be asked to continue extending short-term lines and guarantees to banks and suppliers. The parties and their relevant financial institutions will seek the renewal of short-term credit lines from banks and from suppliers;

(c) a possible emergency financing in the form of a gold swap facility which will be implemented in tranches depending on the progress in mobilising foreign currency for the service of the external debt. In this case the gold will have to be deposited in locations acceptable to the G7.

All these measures represent an integral whole and are not to be considered separately. G7 support of this package of measures is based upon the continuing fulfilment by the parties of the commitments above.

The G7 countries are ready to assist in obtaining treatment from countries indebted to the USSR which is comparable to that given to other creditor countries, according to standard co-operative international practices. The G7 countries will also provide advice aimed at mobilising foreign exchange.

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## EUROPEAN NEWS

# Italian judiciary to stage one-day strike

By Robert Graham in Rome

ITALY'S 7,000 magistrates are to stage a one-day strike to protest at what they regard as unwarranted interference by President Francesco Cossiga.

The action comes after the magistrates' governing body, the higher magistrates' council (CSM), climbed down in a dispute with the president over his right to convene meetings and fix the agenda. Under the CSM's constitution, the head of state is also president of the body, and has these powers, but the magistrates regard the position as titular.

They have thus sought to prevent Mr Cossiga from exercising anything that smacks of political control. This, they claim, has been increasingly evident since he fell out in May with his close friend, Mr Giovanni Galloni, the CSM vice-president and effective head.

To avoid the threat of arrest for meeting without Mr Cossiga's approval, the CSM postponed a session on Wednesday, and yesterday met with an agenda that contained none of the items which Mr Cossiga might have objected to. The magistrates had previously wanted to discuss whether to continue investigations into the affairs of a Masonic lodge in Bologna.

President Cossiga had closed-circuit television installed for yesterday's meeting so he could watch the CSM from his office. Resolution of the conflict is complicated by his poor relations with his own Christian Democrat party and the politicking over who should succeed him when he leaves office next July. Nor have matters been helped by the president's style of arguing with his adversaries, through the news media.

# Rome to recognise 11 minority languages

ELEVEN minority languages have been formally recognised in Italy under a law just approved by parliament, writes Robert Graham.

The law will give regional authorities substantial discretion to decide on bilingualism in communities in which at least 15 per cent speak a minority language. This includes teaching in primary schools and, in the case of Sardinia, could even extend to secondary education.

Sardinia is expected to take most advantage of the new law as Sardinian, a language similar to Catalan, is widely spoken, especially in the countryside.

Other languages recognised include Albanian and Greek, spoken in small communities in the south. In the north, mainly along the Alpine chain and in the Veneto, are Croatian, Friulian, German, Ladina (round Pordenone-Venice), Occitana (Turin), Provençal and Slovenian.

Opponents of the law, including a group of prominent intellectuals, claimed it would undermine the cultural unity of Italy. But Mr Silvano Labriola, the Socialist deputy who promoted the law, said these languages had survived without any official encouragement and Italian culture would be enriched by their formal recognition.

Seemingly irreconcilable Flemish and Walloon politicians staged a calm campaign but support for extremists has doubled

# Belgium steps back from the great divide

**Andrew Hill** assesses the issues in Sunday's general election

THE Balkanisation of Belgium has been exaggerated. Sunday's general election will not end with one of the EC's most enthusiastic member states breaking up, Yugoslav-style, into Flemish-speaking Flanders and francophone Wallonia, with Brussels, self-styled capital of Europe, torn between the two.

When the country's five-party centre-left coalition disintegrated in acrimony and abuse at the beginning of October that looked perhaps the most likely outcome to the outsider.

Devolution of further power to the regions was already firmly on the political agenda and Fleming and Walloon politicians, partners in government for almost their full four-year term, appeared irreconcilable. While prime minister Mr Wilfried Martens was trying to soothe his colleagues' feelings, the leader of his party – the Flemish Christian Democrats (CVP) – was refusing to speak French to Walloon reporters.

But the ensuing election campaign has been calm, not to say stolid. The key-note has been struck by the CVP itself – for many years the largest party in parliament – which has produced a single image for its poster campaign in Flanders: a waxy-looking Mr Martens, shirt-sleeves rolled up, and the slogan "Zekerheid" – certainty or security.

The CVP is not secure. According to an opinion poll two weeks ago in the francophone daily, La Libre Belgique, the party's support in Flanders has dropped from 31.4 per cent at the December 1987 election, to 25.4 per cent. If reproduced at the polls on Sunday, that could leave the Flemish Christian Democrat MPs outnumbered by French-speaking socialists.

The CVP's slump in opinion polls is only the most obvious manifestation of public irritation with the bickering of the five-party coalition in its final months. The principal beneficiaries of this discontent are both the Flemish and francophone green parties, and the Flemish right-wing extremists of Vlaams Blok, which advocates independence for Flanders and has doubled its support to 6 per cent in the Flemish region.

Vlaams Blok – which has as its election symbol a pair of boxing gloves – provides some of the most extreme examples of an ugly streak of racism which is running through this election campaign. It is not confined to the extremists. The French-speaking "liberal" party – in fact, one of the main right-wing opposition groups – is running a campaign in Brussels which makes British sensitivities about candidates playing the race card look petty. Anti-immigrant posters ("Stop à l'invasion!") and leaflets have already drawn legal complaints from the European Parliament and the Belgian anti-racist bodies.

Even if the swing to the right on Sunday is negligible (support for the two liberal parties is almost static according to opinion polls), politicians agree that immigration policy will be a priority for the next coalition. "This is going to oblige the next government to have a real programme on immigration," admits Mr Steve Dubois, chief adviser to the CVP minister Mr Jean-Luc Dehaene.

But the swing during the election campaign has not so much been from left to right, as from indifference to apathy. The same opinion poll showed that 27 per cent of voters were still undecided - a far higher proportion than normal - and the most prominent candidates have preferred to continue the squabbling over devolution, rather than discuss important issues such as Belgium's large budget deficit.

Mr Xavier Mabille, director-general of the Brussels-based Centre de Recherche et d'Information Socio-Politiques, says part of the problem is the proliferation of parties - 11 in the last parliament: "We're not in a country with two big powers like in Britain and therefore the debate can't really be simplified for the public. Everything is nuanced."

Belgians seem to be agreed on two things. With the CVP's vote reduced, and support spread between the other main parties, it will take a long time to form the next coalition, particularly as the government will need to command a two-thirds majority in the chamber of representatives if it is to push through the next phase of constitutional reform. In 1987 it took well over 100 days for Mr Martens to cobble together a five-party coalition.

Mr Martens himself appears to be almost the only other rallying point for the Belgian electorate. If, as expected, the French socialists win the largest number of seats in the parliament, by rights a francophone should become prime minister, but that would run against the grain of recent Belgian political history. In addition, as the CVP's Mr Dubois puts it: "None of the leading characters in the PS is sufficiently bilingual".

In any case, a poll last weekend showed that Mr Martens was still the most popular choice of prime minister. If the king agrees, the EC's longest-serving prime minister will try to assemble his 10th coalition. Holding it together could test even his legendary talent for conciliation.

**A Turkish immigrant points to a poster from the extremist Flemish party Vlaams Blok, which wants to send immigrants home. The poster features its symbol, a pair of boxing gloves and a slogan "For self defence". An ugly streak of racism is running through this election campaign**

# Demonstrators back Havel's bid to avert break-up

By Ariane Genillard in Prague

THOUSANDS of demonstrators yesterday gathered in Prague to show their support for President Vaclav Havel and his latest attempts to save the country from breaking up into its Czech and Slovak parts.

Addressing them from the balcony where they stood during the revolution which toppled the communists two years ago, Mr Havel and former prominent dissidents told nearly 50,000 citizens they should urge parliamentarians to find a constitutional framework for the co-existence of the two republics.

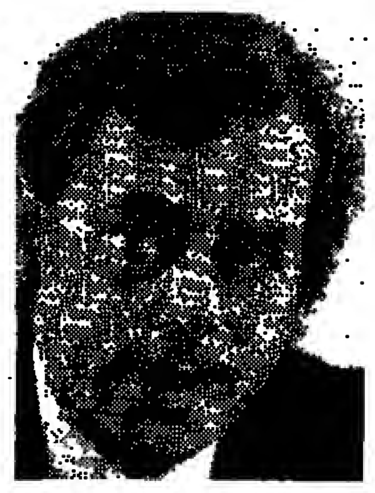
"Deputies must respect their election promises and assume their responsibilities," Mr Havel said. The crowd carried pro-federal banners and sang songs from the revolution of November 1989.

Deputies have failed to agree on the future of the 73-year-old federation. In addition, they have also been unable to devise the questions for a referendum on the issue.

At issue is what how power should be distributed between the federation, and the Czech and Slovak republics.

The prolonged and increasingly bitter crisis has prompted Mr Havel to seek greater powers to allow him to dissolve the parliament and call early elections.

Earlier in the day, Mr Havel presented to the presidium of the federal parliament a project whereby he could call a referendum if only 20 per cent of voters wanted one.


**Havel: referendum call**

Mr Havel's attempt to bypass the legislative and go to the electorate stems from his conviction that the majority of Czechoslovak citizens do not want a divorce between the two republics.

Indeed, recent polls show that even independence-minded Slovaks would vote to keep the federation.

But politicians, especially in the Slovak republic, have opposed a referendum, preferring instead to bargain for greater republican powers during the negotiations between the two republics.

But Mr Havel and his advisers believe that any delay in holding the referendum will increase the risk that the future status of the federation will become an issue during the election campaign to be exploited by politicians from both republics.

# Romania's new constitution sets seal on democracy

ROMANIA'S parliament yesterday adopted a new constitution guaranteeing pluralism, human rights and a free market, Reuter reports from Bucharest.

The document, adopted 23 months after communist rule was overthrown in a bloody uprising, defines Romania as a republic with a government subordinated to the president, who is elected for a maximum of two four-year terms, and a two-chamber legislature elected for four years.

The constitution defines Romania as a market economy and guarantees private property rights. It establishes natural resources as public property which can be leased, bars foreigners from owning real estate and scraps the communist concept of an automatic right to work.

Drawing up the constitution took parliament almost 18 months of often heated debate over issues ranging from ethnic minority rights to the status of churches and the powers of the president.

It was opposed by the main opposition groups – the National Peasants, the Hungarian Democratic Union of Romania and the National Liberals. Some of these favour a return to the monarchy, while others complain that the new basic law was still rooted in the communist era.

The National Salvation Front, which won a two-thirds majority in free elections in May 1990, voted overwhelmingly to adopt the document, ensuring that it was passed.

It is the country's first multi-party republican constitution and draws heavily on the French system, giving substantial powers to the president.

Romania was a constitutional monarchy, with a series of coalition governments until Soviet-backed communists dethroned King Michael and banished him in 1947.

From then until December 1989 it was ruled as a one-party socialist republic in which all basic freedoms were repressed. That system collapsed as revolution swept across eastern Europe in late 1989, climaxing in the toppling and execution of dictator Nicolae Ceauşescu.

The constitution, expected to be submitted to a referendum within 30 days before taking legal effect, stipulates that "the rule of law" will prevail "in a social and democratic state" where human rights, justice and political pluralism are ensured.

It respects the Universal Declaration on Human Rights, bans the death penalty, corporal punishment and torture, and limits the powers of arrest and detention without trial.

The constitution underlines the rights of privacy and residence, which were often violated under the communists.

It also recognises the right of minorities to their ethnic, cultural, linguistic and religious identities, but it declares Romanian to be the country's official language.

Romania has an ethnic minority of 2.3m Hungarians, who say their language and cultural rights are restricted.

## INTERNATIONAL NEWS

Peres wins backing for dovish stance on Mideast peace talks

# Israeli Labour party ready to cede territory

By Judy Maltz in Jerusalem

ISRAEL'S opposition Labour party yesterday adopted a political platform which accepts territorial concessions to Syria in the Golan Heights and recognises the national rights of the Palestinian people, in what represents a clear victory for the dovish branch of the party.

The platform was approved at the close of a three-day national convention, marked by bitter ideological disputes within the party.

"This is an uplifting hour. The party is setting off on its way with a clear platform that obligates all its members," said Mr Shimon Peres, the Labour leader after delegates responded to his call to put aside their differences and approve the platform.

In order to placate Labour's hawks, it was agreed the platform would not include any mention of the Palestine Liberation Organisation (PLO). The party's doves had sought to include a clause calling for direct peace negotiations with PLO members having no prior record of terrorist activity.

On the opening day of the convention, an overwhelming majority of delegates did, however, vote in favour of repealing a law that bans contacts with the PLO.

Mr Yossi Beilin, one of Labour's most outspoken doves, was clearly satisfied with the outcome of the convention.

"The Labour party never, never came out with such a dovish platform since 1967, and in my opinion this is what can bring the party many more votes," he said.

The dovish branch of Labour had threatened to defect to smaller left-wing parties, if its demands for greater flexibility in the peace process were not met.

The convention also passed a resolution, dividing church and state in a move that is potentially as damaging to Labour given the historical importance of religious parties in sustaining Israel's coalition governments.

But even Mr Yitzhak Rabin, who is identified with the hawks and is seen as the only real threat to Mr Peres, managed to surprise delegates when he hinted that he would be willing to make territorial compromises involving the Golan Heights.

Israel's national elections are scheduled for November 1992. Recent opinion polls show support for Labour has been sliding and Likud's popularity growing.

Israeli Labour leader Shimon Peres yesterday urging his party to adopt 'the most dovish platform since 1967'

# Jordan's new premier names cabinet

JORDAN'S new prime minister yesterday named a cabinet to appease parliamentary dissidents, including Islamic fundamentalists who helped to bring down his predecessor, Reuter reports from Amman.

The Moslem Brotherhood, an opponent of Middle East peace talks, is the largest bloc in parliament.

But former Royal Court chief Mr Sharif Zeid Bin Shaker, who presented a 28-member cabinet to his cousin King Hussein, retained the foreign minister, Mr Kamel Abu Jaber.

Mr Bin Shaker replaces Palestinian-born Mr Taher al-Masri, who resigned last week after failing to win the support of deputies.

A big task for his new government is to keep mending fences with powerful Arab states such as Saudi Arabia and the west, angered by Jordan's Gulf war stance.

More than half the deputies opposed Mr Masri, partly because they oppose the peace talks with Israel. Mr Masri, a career diplomat, took office only five months ago to steer Jordan to the controversial talks.

This is the second government formed in recent years by Mr Bin Shaker, who won popular acclaim after taking over as prime minister in 1989 following riots sparked by price rises, charges of government corruption and demands for increased democracy.

His transitional government put Jordan's debt-riddled economy back on course and oversaw the first parliamentary elections in 22 years.

Mr Bin Shaker appointed Thouqan Hindawi, head of the powerful Constitition bloc which joined the campaign against Mr Masri, as deputy prime minister and education minister.

King Hussein, in his appointment letter to Mr Bin Shaker, noted the importance of ties with Saudi Arabia, a relationship Jordan has been trying to repair since the Gulf war.

He also emphasised the kingdom's commitment to the Middle East peace process.

The new cabinet, seen as a more conservative mix of technocrats and deputies, retains economic experts such as finance minister Basil Jardaneh.

# US ready to pay Iran $275m for weapons not sent

By Lionel Barber in Washington

THE US and Iran will shortly reach agreement on a payment of $275m to Tehran relating to undelivered US-made weapons ordered by the Shah of Iran, according to US officials.

The agreement reflects the steady improvement in relations between the US and Iran, underlined by the statements from Washington this week thanking Iran and Syria for their role in the release of western hostages in Lebanon.

The administration denies that the hostage issue is linked to the settlement of outstanding Iranian claims dating from before the 1979 Iranian resolution; but officials agree that these two problems must be resolved before normal relations can be resumed.

Iranian demands for up to $10bn in compensation are under negotiation at a tribunal in the Hague, the sole forum for direct contacts between the US and Iran. Similarly, US companies and dual nationals have filed several billion dollars in counter-claims against Iran for assets seized during the revolution.

The New York Times reported yesterday that the accord providing for the $275m would be announced within the next two weeks, barring any new Iranian claims. It said that a settlement reached earlier this year ran into difficulties after the US refused to give Iran the full amount and suggested a partial payment into an escrow account to cover US counter-claims.

Last week, in a further friendly signal to the Tehran regime, the US blamed the Libyan government for the bombing of Pan Am 103 over Lockerbie, Scotland. The administration studiously avoided implicating Iran and Syria, despite earlier reports that both governments had a motive for the bombing in retaliation for the downing of an Iranian airliner by a US warship in 1988.

# Rows hold up all-party talks in South Africa

By Patti Waldmeir in Johannesburg

ALL-PARTY talks on South Africa's first non-racial constitution were yesterday postponed after disagreements over who should chair the discussions and other details.

Talks are now expected to take place on December 20 and 21, according to separate statements issued yesterday by the South African government, the African National Congress (ANC) and the Inkatha Freedom Party. However, the radical Pan Africanist Congress, another key participant, insisted that the talks take place outside South Africa, a demand which will not be agreed to by the other main groups due to attend.

Negotiations were originally due on November 29, the date announced by Mr Nelson Mandela, ANC president, last week. However, Mr Mandela's announcement was viewed as premature by other parties to the talks, contributing to the postponement.

The government and the ANC said yesterday they would hold a meeting on November 29 to try to clear the way for negotiations on December 20 and 21.

But the fact that all three main participants issued separate statements indicates that further difficulties remain to be resolved.

The start of the talks would be an important breakthrough after months of political stalemate.

However, the December meeting, if it is held on time, will be mainly symbolic, with substantive talks not due to take place until next year.

# Thai PM criticises army powers in new constitution

THAILAND'S controversial draft constitution passed its second reading in the legislative assembly yesterday prompting Prime Minister Anand Panyarachun to speak out against provisions he has described as undemocratic, write Victor Mallet and Peter Ungphakorn in Bangkok.

Clauses granting a military-appointed Senate power to participate in choosing the prime minister, and to vote with the elected lower house in budget and no-confidence debates, remain in the draft, which awaits a straight vote next month. The main parties and civil rights campaigners organised rallies on Tuesday to pressure the military, who took power in a coup last February, to reject the constitution.

# Australian opposition unveils radical plan

AUSTRALIA'S conservative opposition parties yesterday unveiled detailed plans for radical fiscal and economic reforms, including extensive privatisation, if they win the next federal election, reports Kevin Brown from Sydney.

The proposals include big cuts in personal income taxes, the abolition of seven existing taxes, and the introduction of a Goods and Services Tax (GST), similar to the Value Added Tax system in the European Community.

Mr John Hewson, leader of the Liberal/National Party conservative coalition, said the reforms would revitalise the Australian economy and contribute to the creation of 2m new jobs over the next decade.

It was widely welcomed by businessmen but attracted criticism from social services organisations, which said low income families would be hurt by the GST proposals.

The Labor government appeared surprised by the size and scope of the package. Mr Bob Hawke, the Prime Minister, said it would "polarise" the country by benefiting the rich.

The coalition parties said the package would cut personal income tax by an average of 30 per cent, at a cost of A$13bn. The biggest beneficiaries would be low to middle income earners.

The GST would be set at 15 per cent, which is forecast to cause a one-off increase of 4.4 per cent in inflation. Pensions and social security payments would be increased by between 4.8 and 8 per cent.

Ten government corporations would be sold, including the main telecommunications carrier, the Federal Airports Corporation, Qantas, the international airline, and a stake in the Commonwealth Bank.



## CONTRACTS & TENDERS



## BUSINESSES FOR SALE



THE BUSINESS SECTION ALSO APPEARS ON PAGE 12 TODAY

Japanese finance and securities industry workers campaign at the Tokyo Stock Exchange yesterday over pay and conditions

# Singapore sounds the alert

**Gordon Cramb** on the implications of an electronics downturn

SINGAPORE'S electronics industry, one of the main conveyor belts of the country's economic growth, has gone into reverse for the first time since 1985. Expansion in financial services, another of the island's channels of recent success, is juddering to a halt after four strong years.

Anxiety in some quarters has been met with equanimity in others in the week which the island has had to assess the sectoral setbacks. These were thrown into relief last Friday in third-quarter figures for gross domestic product (GDP), which showed an overall slowing to 6.5 per cent real growth from 7.1 per cent in the previous three months and 8.3 per cent in 1990 as a whole.

Indeed, even as the latest quarter drew to a close, the state Economic Planning Committee was already warning that export competitiveness in manufacturing had descended into a danger zone where the relative level of labour costs made the risk of recession high.

There are as yet few signs of upset in other key parts of the economy: construction, property and hotels, which together took the brunt of the mid-1980s battering, are holding up well, although one leading estate agent this week forecast a 5 per cent dip in the residential market by mid-1992.

In addition, private sector economists play down the worst of recessionary fears, talking of a revival in overall demand by mid-1992 and an under-supplied labour market. They attribute the electronics problems largely to world overstocking in hard disk drives, of which Singapore is a big producer, and the sluggishness in the financial sector to a temporary reining-back of foreign exchange dealings by overseas banks anxious to meet capital adequacy requirements laid down by the Bank for International Settlements.

Given the dire official warnings, however, there are signs that the government of Prime Minister Goh Chok Tong, who took over a year ago from the tough-minded Lee Kuan Yew, is at least preparing the electorate for a possible era of more modest, but sustainable, economic progress.

His pledge of a more open, consultative style has let loose a hubbub of dissenting opinion, not least from the rank and file of his People's Action Party (PAP).

Another recession similar to that which beset the island-state six years ago might not be so meekly received by the public.

Defending his and his predecessor's record to a PAP convention last weekend, Mr Goh appeared especially stung by suggestions that the party was neglecting the poor. He was quoted as asserting that, while inflation rose during the last decade (it is currently 3.6 per cent), less-skilled workers had benefited from higher real wage increases than professionals and managers.

He cited Department of Statistics figures showing that, after inflation, people ranging from skilled white-collar employees to executives received increases of only 2.2 per cent, while production, transport and other manual workers received a real gain of 5.3 per cent.

A female shop-floor worker earning perhaps S$500 (£168) a month to slot electronic components into printed circuit boards may be mollified by this, and by the knowledge that her counterpart in other Association of South East Asian Nations (Asean) countries would be bringing in rather less. Her immediate future seems relatively assured: in the face of the 5.9 per cent decline in electronics industry output in the three months to October compared with the period a year ago, employers are trying to retain experienced staff in the hope of an early upturn.

Redundancies in the industry have been modest, and those jobs that have gone have commonly been associated with foreign companies withdrawing from Singapore for narrower corporate reasons. Ashton-Tate of the US on Monday announced the closure of its software reproduction plant with the loss of 63 jobs, in a move which followed the takeover of the group by the rival Borland.

With unemployment in Singapore only some 3 per cent, the companies' consequent wish to keep surplus workers is itself eroding competitiveness in the short term, while a steadily strengthening local dollar is putting a further dent in export prospects. According to Mr Yang Sy Jian of Kay Hian James Capel, an affiliate of the London stockbroking firm, the ever-watchful Monetary Authority of Singapore, the central bank, is allowing the currency to continue a two-year rising trend in order to keep inflation low. The negative side, he is sure it recognises, is slower growth.

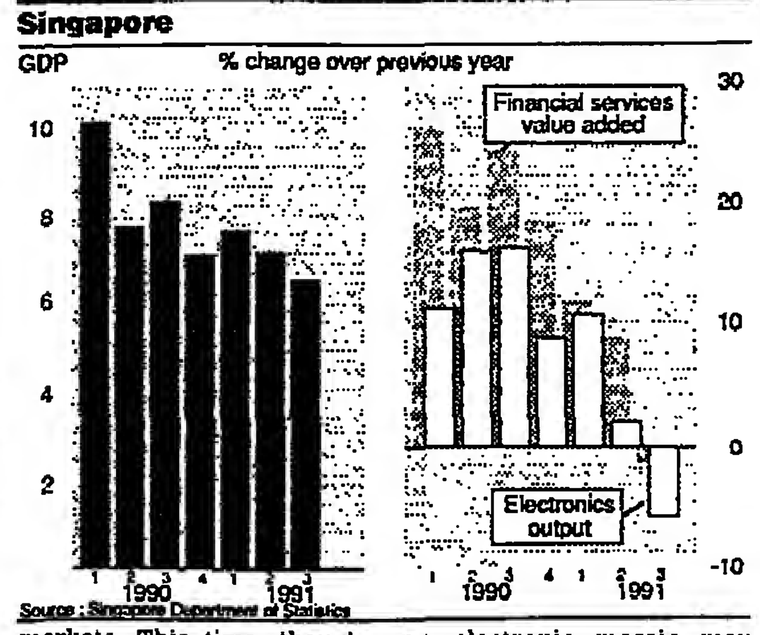
With Singapore's small domestic base, whether the country escapes recession depends as always on the timing and extent of an upturn in the US and other main markets. This time, though, there is optimism that a shift to higher value-added electronics products with more home-grown design input will cushion the island against cost-driven relocations in what is by far its main manufacturing industry.

Mr Yang sees this as a "major transition of the next five years" and, to the extent that it is already happening, argues that it remains unreflected in the GDP breakdown by crude value of goods produced. He adds that, as Singaporean companies themselves join overseas multinationals in setting up production elsewhere in the region, the wider measure of GNP would become the more meaningful.

The production-line worker turning a flat circuit board into an electronic mosaic may therefore not always find her skills as sought-after, as manufacturers shift to lower-wage areas such as adjacent southern Malaysia.

Her white-collar compatriots on the forex dealing rooms and back offices of foreign banks have already felt the chill blast, albeit from Basle rather than Johor Baharu. By one unofficial estimate, as the volume of currency trading through Singapore shrank by more than a quarter from its peak of nearly US$100bn a day, 1,000 of their number have been shed.

However, the fact that the vast majority of these are reported to have been snapped up by local banking groups may well say something for Singapore's capacity for renewal.




Source: Singapore Department of Statistics

# US to postpone fresh troop cuts in South Korea

**By John Ridding in Seoul**

THE US and South Korea yesterday said they would postpone indefinitely further cuts in American military forces in South Korea because of the threat posed by North Korea's nuclear programme.

Mr Richard Cheney, US defence secretary, said in Seoul he was "convinced that North Korea is developing the capability to build a nuclear weapon" and that the prospect of a North Korea with nuclear weapons was the biggest threat to security in north-east Asia.

As a result, he said there would be no reduction in forces after the completion of a first stage of troop cuts in 1993 "until the dangers of the North Korean nuclear programme have been thoroughly addressed".

The postponement will affect the second phase that had been planned to reduce troop numbers by about 6,000 to 30,000 between 1993 and 1995. The first phase has already cut US troops from 43,000 to about 39,000 and is due to reduce them to 36,000 by the end of next year.

Mr Cheney, and Mr Lee Jong Koo, the South Korean defence minister, urged North Korea to allow international inspection of its nuclear facilities in line with its commitments under the nuclear non-proliferation treaty, to which it is a signatory. Pyongyang, which denies its nuclear programme is aimed at developing weapons, has consistently rejected demands for international inspection. It has said South Korea must be removed from the protection of the US nuclear umbrella of regional sea and air-launched warheads before it will allow inspection.

Mr Lee said that South Korea and the US would step up diplomatic pressure on North Korea and try to enlist the support of the Soviet Union and China, Pyongyang's traditional allies.

Mr Cheney said that he welcomed a declaration by South Korea's President Roh Tae Woo that Seoul would not use, store or develop nuclear weapons.

# Hyundai backs away from clash with Seoul on penalty taxes

**By John Ridding in Seoul**

THE Hyundai Group, one of South Korea's largest conglomerates, yesterday said it would pay penalty taxes of won 136bn (£106m) in an attempt to resolve a confrontation with the Korean government.

The move reverses Hyundai's refusal to pay the tax penalties which were imposed following charges of irregular share transactions and avoidance of inheritance taxes. It is expected to lead to a settlement between the conglomerate and the government.

The confrontation, which has escalated over the last week, has come to represent a test of strength. It has added to tensions between the administration and the *chaebol*, the family-owned conglomerates which dominate the economy.

After an emergency meeting of group executives, Hyundai said it would pay won 91.1bn of the penalty taxes by the end of this month and ask permission to pay the balance later.

Officials at the Office of National Tax Administration, which levied the taxes on 10 Hyundai subsidiaries and eight members of the family of Mr Chung Ju Yung, founder and honorary chairman of the Hyundai Group, said they had not decided whether to accept Hyundai's proposed solution. But they indicated it might be possible to grant an extension for part of the payment.

Even if resolved, the repercussions of the affair will linger. The investigation has sent a clear signal to the *chaebol* that the government is stepping up attempts to limit the transfer of wealth and management control between different generations of the family-owned business groups.

Hyundai said that it would still appeal against the penalty taxes, a record for a Korean business group, and that it still regarded the government action as "unfair".

Analysts at securities companies attributed Hyundai's compromise to concern over the government's tough line. The national tax administration said on Tuesday it would confiscate assets of the business group if it failed to pay half of the penalties by the end of this month and the balance by December 10.

# Doubts grow on recovery of US economy

By **Michael Prowse** in Washington

AN unexpectedly sharp rise in the number of workers seeking unemployment insurance yesterday raised fresh doubts about the health of the US recovery.

Initial claims for unemployment insurance jumped 39,000 to 493,000 in the week ending November 9, after seasonal adjustment. This was the second substantial weekly increase and, unless rapidly reversed, signals a return to recessionary conditions in labour markets.

"It's a bit scary," said Mr David Wyss, director of research at DRI McGraw Hill, a forecasting firm. If sustained, this level of claims "suggests the economy may be heading down again."

DRI recently revised down its forecasts and expects no significant economic recovery until next spring. Marginal growth of 0.5-1.0 per cent at an annual rate is expected this quarter.

Financial markets closely monitor jobless claims as a leading indicator of employment trends.

When the recession began in July 1990, claims were running at a weekly rate of about 350,000. They hit a peak of over 500,000 early this year before receding to about 400,000 after a limp recovery in the early summer.

The claims figures are volatile on a weekly basis but the four-week moving average has now drifted steadily higher since July, suggesting a significant loss of momentum.

● The National Association of Business Economists yesterday sharply reduced its forecast for growth in the current quarter to 2 per cent at an annual rate from 2.8 per cent in August.

The association's panel of 45 economists remains mildly optimistic about next year, forecasting a "lethargic recovery" with output growing at about 3 per cent, which is half the average for post-war recoveries.

However, 10 per cent feared a "double dip" recession.

The panel saw a "silver lining" in the shape of lower inflation. The GNP deflator, the broadest measure of inflation, was likely to rise by only 3.1 per cent next year, putting downward pressure on wage settlements.

# Military legacy puts Chile's democracy to the test

## President Aylwin's 20-month-old coalition faces its toughest challenge, writes **Stephen Fidler**

CHILEAN President Patricio Aylwin has just taken on his toughest challenge since he assumed power from a reluctant General Augusto Pinochet 20 months ago.

The announcement that his coalition government aims to sweep away the remaining institutional legacies of 16 years of military rule will provide the acid test for the country's new democracy. The reforms are expected to encounter stiff opposition from both the political right and the military.

The proposed changes provide the first unequivocal sign from President Aylwin that he, rather than a successor, intends to complete in full the transition from a military government to a democratic one.

The governing coalition of Socialists, Radicals, Greens and Christian Democrats can claim significant success in the way it has tackled its problems, including cooling an economy overheated by the military régime in a vain bid to win presidential votes.

However, it still must live with its armed forces, which, as a legacy of military rule, continue to play a large role in Chilean society. "People don't realise how many pieces of legislation, how many rules, how many constraints, were inherited from the previous government," said Mr Alejandro Foxley, the Chilean finance minister, in a recent interview. "One of these is the issue of defence expenditure."

The first of the reforms, already approved, introduces direct elections for municipal councils and mayors to replace officials appointed by Gen Pinochet. The first local elections since 1971 are expected before June next year.

Mr Aylwin, who has already introduced legislation which will, among other things, reduce the influence of the Pinochet-appointed judges in the Supreme Court, intends to present other constitutional amendments next March. They include:

● Restoring the president's power to remove commanders-in-chief of the armed forces. Under the 1980 constitution, the president can neither appoint nor remove military chiefs. Gen Pinochet has the right to remain as head of the army until 1997.

● Reforming the bias of the electoral system towards the right-wing opposition, changing the composition of the constitutional tribunal and ensuring all senators are elected, thus abolishing the senators appointed by the military régime.


UNEASY TRUCE: Aylwin's coalition must still live with its armed forces

The issues are linked. The 75-year-old general, who still commands intense loyalty, particularly in the 57,000-strong army, is himself seen as a source of instability and a block to democratic transition.

Mr Foxley and the government have little say over military expenditures. Spending on the military, including pensions of retired servicemen, is expected to total 17.6 per cent of the national budget next year, roughly equal to spending on health and education combined. But a law passed by the military junta one month before stepping down from power decrees that military expenditure cannot fall in real terms below the level of 1989.

The military threat to Chile has since 1989 been much reduced: a long-running border dispute with Argentina was as good as settled this year, and relations with Chile's other neighbours, Bolivia and Peru, have much improved.

However, overturning the military spending legislation requires a Senate vote. This will be difficult because nine of the 38 senators are Pinochet appointees whose terms do not run out until 1997. Together with those elected, the right controls 22 senators, a blocking majority.

Another military law makes the number of active servicemen a state secret. Only the composition of the high command of the three branches is made public.

There can thus be no debate in Congress on whether the armed forces are appropriately structured. Moreover, 1,200 members of the former secret police, many of them spies and torturers, remain on the government payroll as members of the army's intelligence unit.

President Aylwin will be pushing through these reforms as the two conservative parties, Renovacion Nacional and Union Democratica Independiente, try to carve independent profiles. This is ahead of next year's municipal elections that are being seen as a testing ground for the presidential elections in December 1993. As a result, the consensus politics which marked the first year of democracy have been abandoned.

The government is also facing growing social pressures, arising partly out of years of autocratic rule and economic stagnation brought about by the Latin American debt crisis.

Some 42 per cent of the 13m population lives below the poverty line and the desire for improved living standards after years of austerity under the military régime has been manifested in a growing number of strikes, particularly in the public sector.

Mr Foxley concedes these pressures will grow but says the government will resist calls to relax policy. "If this democracy is going to succeed," he said, "it won't be by taking the easy way out. People will have to learn that we have to go gradually and that we can't afford to give in to excessive demands."

# Peru closes companies for not paying taxes

By **Sally Bowen** in Lima

THE Peruvian tax authority Sunat has taken the unprecedented step of temporarily closing down seven leading businesses for non-payment of monthly tax dues and failure to issue invoices.

The Lima-based companies include a state-owned laboratory which produces oral rehydration salts (used in the treatment of cholera), several textile manufacturers and a colourants company belonging to a prominent senator and former president of Confiep, Peru's private businessmen's association. A five-star Lima hotel has appealed against closure, but if the tribunal finds against it, as expected, it will cease trading for twenty days instead of ten.

The sanctions are the first fruits of a massive reorganisation inside Sunat, which had become notoriously ineffective and corrupt. Administrative reforms have already pushed up tax revenue from 4 per cent of GDP last year to almost 8 per cent. Mr Manuel Estela, Sunat chief, thinks that he can raise collections to 16 per cent by May 1993 by countering widespread evasion.

# Brazil falls short of debt swaps target

By **Christina Lamb** in Rio de Janeiro

BRAZILIAN economy ministry officials said yesterday that there had been a disappointing response to the government's decision to allow debt-for-nature swaps.

Such swaps involve creditors forgiving debt to a country in return for its government donating a percentage of the face value of the debt, in local currency, to an environmental project. In the Brazilian case the government will give 6 per cent a year of the debt's face value in perpetuity.

Brazil's announcement in June that it would allow such conversions represented a reversal of government policy and came after strong pressure on President Fernando Collor during a trip to Washington.

The nominal target for this year was $100m but yesterday Mr Dagoberto Koehntopp from the foreign department of the Economy Ministry said that only five small projects had been received so far.

"We expected far more interest," he said. "For five years I've been in this area and every time I went abroad or met foreign bankers they complained that we had no conversion programme. Yet now we do the response is disappointing."

However, bankers blame the lack of applications on the restrictions in Brazil's conversion programme and point out that at a recent forum Brazilian non-governmental organisations voted against accepting debt swaps, arguing that to do so would be to accept that the legitimacy of the debt.

Bank of America, recently announced it was donating $6m of its Latin American debt for swaps, the bulk of which is intended for Brazil. Mr Joel Korn, president of Bank of America in Brazil, said: "There is no question that the interest is there. What's been disappointing is the restrictions in terms of yearly available funding. For every $1m we forgive only $60,000 is given to the project."

But Mr Denot Medeiros, international director of the economy ministry, said that with monthly inflation at 30 percent the government is reluctant to allow further expansion of the money supply.

Mr Allan Walker, of Midland Montagu in Brazil, said debt swaps had become less interesting because of hopes of an agreement – along lines set out by US treasury secretary Nicholas Brady – on restructuring Brazil's $52bn commercial debt early next year. This is expected to push up the value of Brazilian debt on the secondary market from 25.5 cents in the dollar to 40 cents.

● US regulators have further downgraded their evaluation of Brazil's foreign debt. The Inter Agency Country Exposure Risk Committee (ICERC) has asked American banks to increase their reserve provisions against Brazilian short, medium and long-term debt from 40 to 50 per cent. The decision caused the price of Brazilian debt on the secondary market to fall slightly.

# Pensioners' pay puts IMF accord at risk

By **Christina Lamb**

BRAZIL'S hopes of an accord with the International Monetary Fund may be in jeopardy because of a court ruling awarding a 147 per cent pay increase to the country's 12.6m pensioners.

The government will appeal next Monday against the decision.

According to economy minister officials, the ruling would mean an extra $6bn in expenditure next year, undermining the fiscal targets recently agreed with the IMF.

In a letter of intent expected to go before the IMF board in January, Brazil promised to make a fiscal adjustment equivalent to 2 per cent of gross domestic product next year to secure a $2bn standby facility.

The extra revenue is to come from increased taxes proposed in a series of emergency reforms currently before Congress.

The government originally hoped to raise an extra $13bn, but has already had to back down partially on the reforms, which would have meant a sharp increase in the tax burden on the middle class.

It is also expected to drop a proposal asking companies to pay two-thirds of their tax in 1992 rather than 1993.

Congress must pass the reforms within the next 20 days if they are to take effect from next year.

## WORLD TRADE NEWS

# World Bank approves new co-financing tool

By Frank Gray

THE World Bank this week substantially broadened the scope of its Enhanced Co-financing Operation (ECO) to make it easier for commercial banks to participate in the financing of aid assisted projects in developing countries.

The action will have immediate effect on the Hab River power project in Pakistan, a $1.5bn (£835m) scheme to build a 1,292 MW oil-fired power scheme. Most of the contracts for Hab River have been signed, but have been pending while western banks have awaited a World Bank decision to broaden the scope of its financial support for infrastructure projects.

Under the ECO facility, the World Bank agrees to partially cover risks on project support loans extended by foreign and domestic commercial banks backing projects in the host country. Apart from Pakistan, it also will be able to be used to support projects in Colombia, India, Indonesia and Malaysia, as well as other countries with extensive privatisation programmes. The intention of the ECO is to boost private capital flows to developing countries from foreign banks, made easier because of the Bank's decision to provide safeguards against risks not under the control of the private sector.

**The intent is to buttress aid supported programmes and broaden the potential for private sector equity participation in infrastructure projects.**

The intent is to buttress aid-supported programmes and broaden the potential for private sector equity participation in infrastructure projects.

In the Pakistani project, the ECO would be extended to a bank syndicate led by Mitsui Bank, Bank of Tokyo, Citibank, Crédit Lyonnais and Union Bank of Switzerland, who would provide a $360m 14-year syndicated loan, including a four-year grace period. According to Mr Ibrahim Elwan, the Bank's privatisation manager and architect of the facility, the ECO guarantee for the project will provide protection to the commercial banks against sovereign risks, including the failure by the Pakistan government to comply with the agreements for the purchase of electricity, the supply of fuel and the conversion of revenues to foreign exchange to service the debt.

The Hab River scheme is set up as a private sector utility under Pakistan's restructuring programme.

It is to be managed by HubCo and would generate power which would be sold into the national grid. Xenel Industries operating the complex and K & M Engineering of the US providing construction supervision.

Ground-breaking is scheduled for January with the first of four 323 MW units on line in three years.

*Frank Gray is Editor of Power in Asia, a Financial Times Newsletter.*

# GE near accord with McDonnell Douglas on new engine

By Paul Betts, Aerospace Correspondent

GENERAL Electric (GE) of the US is about to sign an agreement with McDonnell Douglas to provide its new heavy thrust GE90 engine to power the US aircraft manufacturer's proposed 375-seat MD-12 three-engine airliner, further intensifying competition in the big engine market between GE, Rolls-Royce and Pratt & Whitney.

Mr Ron Welsch, head of the $1.5bn (£835m) GE90 engine programme, confirmed in Cincinatti that the company was about to finalise an accord with McDonnell Douglas. He said GE expected to offer a 115in diameter fan version of its GE90 for the MD-12 trijet instead of the 123in fan it is developing for the new Boeing 777 twin jet.

British Airways became this summer the launch customer for the GE90 when it ordered the engine for its new fleet of Boeing 777s. Mr Brian Rowe, head of GE's engine operations, said the company had won an order from another undisclosed airline for GE90 engines to power Boeing 777 aircraft.

GE executives also disclosed that the company was in "extremely advanced" negotiations in the Soviet Union to re-engine with CFM-56 power plants jointly built by GE and Snecma of France Aeroflot Ilyushin 86 four-engine airliners.

● In a separate deal, Boeing said it had awarded a multi-million dollar contract for nose landing-gear doors for the new Boeing 777 to Short Brothers of Belfast.

# US stays calm over stalled agriculture talks with EC

By Nancy Dunne in Washington

THERE was no visible sign of alarm yesterday in the office of Mrs Carla Hills, the US trade representative, in reaction to reports that the US-EC talks over agriculture reform had stalled. The negotiations are part of the Uruguay Round talks on trade liberalisation under the General Agreement on Tariffs and Trade (Gatt).

Ms Torie Clarke, her spokesman insisted that "the talks didn't break up and didn't break down."

She said Mr Arthur Dunkel, Gatt director-general, would prepare a paper with his suggestions on the talks, and the discussions would move to a wider group of negotiators.

The Uruguay Round is President Bush's top trade priority, but, in Washington, distance from the negotiating battle provides a certain sort of objectivity. A European official on Wednesday mentioned casually that the French were being "difficult."

Reports that the president had made concessions two weeks ago in the Hague have been widely dismissed. Mr Harry Freeman, executive director of the MTN Coalition, the group of business leaders committed to the Uruguay Round, said Mr Bush had not gone to the Hague to negotiate but to get a political commitment for a breakthrough.

"What Bush said was that the position the US took three years ago was just a negotiating start. He is prepared to be more flexible. The EC made a big deal out of it. It gives them more political manoeuvring room. It is unpopular to cut the Common Agriculture Policy. They want to cut it and blame it on the US. Fine!"

Mrs Hills has insisted that no specific level of cuts in farm subsidies had been reached at the Hague.

# Japan urged to move faster on imports and inward investments

By Stefan Wagstyl in Tokyo

FOREIGN business leaders yesterday urged Japan to move faster in removing barriers to imports and inward investment.

After a day of talks with Japanese government officials they warned that the recent surge in Japan's trade surplus would provoke reaction and calls for protectionism in north American and Europe.

Mr Joseph Gorman, the chairman of TRW, the US auto components maker, said that if the growth in the surplus was not stemmed then Mr Bush could lose next year's US presidential election.

A Democratic Party president and a Democratic Party Congress could enact protectionist measures, he warned.

Mr Wisse Dekker, the former president of the Dutch company Philips Electronics and now chairman of its supervisory board, said there was "a growing tension in Europe" over Japan's surplus.

Dekker: "growing tension" over Japan's surplus

The businessmen are members of the Import Board, a grouping of foreign businessmen, Japanese businessmen and government officials established this year to investigate ways of improving access to Japanese markets for foreign companies.

The businessmen welcomed measures proposed by Japan in recent weeks to improve access to government procurement programmes and promote import-purchasing by large Japanese companies.

They also expressed satisfaction that Japan is considering other steps, including tax-free zones for importers' warehouses and assembly plants.

● Japan has welcomed a Washington announcement that a visit to Japan and Asia by President Bush, which had been scheduled for the end of this month and then cancelled at short notice, will now take place in early January.

## NEWS IN BRIEF

### ECGD trims S Africa rates

THE COST of insuring export credits on British companies' contracts in South Africa is to fall following a review of premium rates by the Export Credits Guarantee Department, writes David Dodwell, World Trade Editor.

The high cost of insuring contracts in South Africa - along with limits on the availability of cover - has been a matter of mounting concern among British exporters.

The decision to trim premium rates was revealed by Mr Tim Sainsbury, Britain's trade minister, at the end of this week's official visit to South Africa.

He noted this would be "good news" for British exporters, but did not reveal by how much rates would be cut.

### Ericsson wins SKr500m contract

ERICSSON, the Swedish telecommunications company, has won a SKr500m (£47m) order from Switzerland through its local partner Ascom for the installation of a national digital mobile telephone system by 1995, it was announced yesterday, writes Robert Taylor in Stockholm.

### Telecoms groups in Soviet link

British Telecom and Mercury, America's AT & T, Germany's Bundespost and France Telecom are among 25 telecom agencies from all parts of the world which have bought a share of the world's first digital telecommunications cable between Europe and the Soviet Union, it was announced by Telecom, a division of Tele Danmark, the Danish telecoms agency, writes Hilary Barnes in Copenhagen.

# Egypt attempts to juggle old and new markets

**Tony Walker** on a nation changing its approach

EGYPT, which has been striving to develop new markets for its non-traditional exports such as garments, shoes, fresh vegetables and citrus is finding the going tough following dramatic changes in trading habits in its eastern European and Soviet markets.

Trade with eastern Europe is down this year by 10-15 per cent compared with last year, and business with the Soviet Union under a special sterling pound clearing account has all but collapsed in the light of upheavals in Soviet republics.

Mr Essam Farag, an undersecretary in Egypt's department of the Economy and Foreign Trade, said it would take time for Egyptian exporters, used to cosy "back-to-back" deals covered by an annual trade protocol signed with the Soviet Union, to find new ways to do business with the emerging republics.

The Egyptian official describes the present stage as one of "transition" in Egypt's dealings with what were until recently centrally planned economies much like its own. Mr Farag is not looking forward to discussions next month with Soviet officials on a new trade protocol for 1992.

"Do they know who the minister of economy and trade is?" he asked facetiously. Egypt, for its part, is also finding that changes in eastern Europe are adding to pressures for it to liberalise its own system.

"These countries (eastern European and the Soviet Union) are moving towards market economies and they are increasingly reluctant to engage in barter deals and other special arrangement with public sector authorities," he observed.

Egypt's goal, Mr Farag said, in this transition phase is to try to ensure that there is not a "critical drop" in its trade with former East Bloc countries at a time when it is also preparing to cope with the new and more competitive European unified market in 1992.

**EGYPT'S FOREIGN TRADE 1989**

| Main Exports | Per cent of total | Major Imports | Per cent of total |
|---|---|---|---|
| Energy products | 50.2 | Manufactures | 66.2 |
| Manufactures | 24.6 | Food | 20.2 |
| Raw materials | 19.9 | Raw materials | 9.9 |
| Food | 5.3 | Energy products | 3.7 |
| **Leading markets** | | **Leading suppliers** | |
| EC | 43.0 | EC | 34.9 |
| Romania | 11.6 | US | 18.9 |
| Soviet Union | 5.8 | Romania | 6.0 |
| US | 5.2 | Soviet Union | 4.2 |
| Japan | 5.0 | Japan | 3.9 |

Source: Economist Intelligence Unit

In 1990 Eastern Europe and the Soviet Union absorbed 21 per cent of Egypt's total exports.

One of the principal aims of recently-concluded IMF and World Bank programmes for far-reaching structural reforms of the Egyptian economy is to encourage a growth in exports of non-traditional items where Egypt has a comparative advantage because of its low cost structure and proximity to European and Arab markets.

Egyptian exports are dominated by oil and oil products which account for more than 50 per cent, and cotton and cotton yarn which comprise about 20 per cent, although exports of non-traditional items have been increasing fairly rapidly.

Mr Farag said that total trade in the first four months of 1991 was up by about 15 per cent on last year. This was largely due to a sharp increase in Egypt's oil export earnings. In the 12 months to June, 1991 oil receipts jumped by 70 per cent to $2.54bn. In spite of the improvement in the oil sector, Egypt's trade deficit in calendar 1990 was $7.3bn with merchandise imports of $11.5bn and exports of $4.3bn.

An IMF programme introduced in May was designed to bring about a further devaluation in the Egyptian pound to increase Egypt's competitiveness, but against expectations the pound has remained remarkably stable in the past six months.

Eastern European trade attachés are reporting a very substantial drop in Egypt's exports. Egypt's exports to Poland, for example, slumped from $30m in 1989 to just $1m this year.

Trade with the Soviet Union was expected to total £750m under this year's (1991) protocol, but it has only reached a fraction of that amount due the political chaos in Russia and the Republics.

According to Mr Vladimir Favelov, a Soviet commercial attaché in Cairo, the Soviet Union would meet about 50 per cent of its obligations to Egypt this year.

Egyptian trade officials say that Egypt's exports to the Soviet Union this year exceed imports by about $50m a figure contested by Soviet officials.

The year, 1991, may well mark the end of annual trade protocols with the Soviet Union that date back to the days of President Gamal Abdel Nasser when Moscow emerged as Egypt's main arms supplier. It is perhaps not overstating things to report this is the end of an era.

The question for Egypt, still entrapped by its own highly centralised system, is whether it is prepared for the rigours of the free-wheeling and chaotic market economies that are emerging from the ruins of eastern Europe's own centrally planned economies.

# Thatcher in defiant clashes on referendum

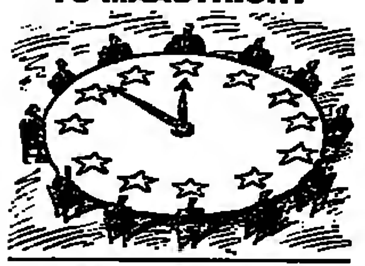
By Ivor Owen, David Owen and Ivo Dawnay

A DEFIANT Mrs Margaret Thatcher, the former prime minister, was at the centre of renewed controversy in the Commons last night over whether the abandonment of sterling in favour of a single European currency should be subject to a referendum.

She insisted on advocating such a course even though it brought her into direct conflict with Mr John Major, the prime minister, Mr Douglas Hurd, the foreign secretary, and with Mr Edward Heath, with whom she has repeatedly clashed since ousting him from the Conservative leadership in 1975.

Even before the second day's debate on next month's EC summit at Maastricht got under way Mr John Major firmly ruled out a referendum on the outcome.

**COUNTDOWN TO MAASTRICHT**



He stressed that he would also be opposed to a referendum on a single currency if at some future date the three main political parties were agreed on such a course.

Mrs Thatcher listened in silence to the prime minister and the foreign secretary but was unable to resist responding to scornful criticism from Mr Heath.

He gleefully recalled the speech made by Mrs Thatcher when she led the Conservative party in a vote against the referendum authorised by the Labour government in 1975 on whether Britain should remain a member of the European Community.

Mocking laughter came from the Labour benches as the two clashed, while Mr Major and his senior colleagues looked on in silent embarrassment.

Mr Heath said Mrs Thatcher had opposed a referendum in 1975 on the grounds that it would "bind and fetter parliamentary sovereignity in practice".

He said "I agree with her entirely. I see no reason to change that view, or her view, at this moment or in the future".

Mrs Thatcher said she had inherited opposition to a referendum in 1975 from Mr Heath and had "loyally upheld it".

She argued that different considerations would apply if, as seemed likely, the three main parties favoured the adoption of a single currency.

To cheers from some of her supporters, Mrs Thatcher demanded "how are the people going to make their views known".

Mr Heath replied that such situations constantly occurred in parliamentary history, and that there were other issues on which voters could reach a judgment.

Mr Hurd, the foreign secretary, called for a more positive approach to closer co-operation with the EC and argued that the defensive note struck on so many occasions did not accord with the events of recent years.

Many policies adopted by the Community, he said, particularly in improving budgetary arrangements, had their origins in views expressed by Mrs Thatcher, during her period as prime minister, and by other British ministers.

Mr Nigel Lawson, the former chancellor of the exchequer, said the key issue was not the political union treaty amendements, but the economic ones. If the community adopted a single currency, then a single finance minister and a single government would follow.

With a single currency on the way, financial markets would reconsider their readiness to hold the debts of countries with large debt overhangs, suggesting that their interest rates would go up considerably possibly forcing a Community bail-out of highly indebted countries.

Mr Lawson said that, nonetheless, he could support signature of the economic and monetary union treaty amendments provided the "opt-out" clause for the UK was maintained and the binding declaration accepting a goal of a single currency, which Britain would not sign, was kept separate.

He was also ready to go to Stage Two of the proposed EMU process, accepting a Economic Monetary Institute of central banks, provided that this was the "stopping point".

Mr Hurd ridiculed the gyrations of Mr Neil Kinnock,the Labour leader, which had brought him full circle as he first opposed Britain's membership of the European Community and then supported it while his party changed its position seven times.

He likened the attacks to which Mr Kinnock had been subjected from the government benches to "pouring salvoes into a grievously stricken vessel".

Mr Hurd reaffirmed that Britain would be advocating a bigger role for the European parliament,and more "teeth" for the European Court of Justice in the Maastricht negotiations.

Joe Rogaly, Page 15

# Now the serious bargaining is about to begin

**Philip Stephens** considers the further battles John Major has to fight with his European partners

HE has completed the negotiations with his own party. Now Mr John Major must begin the serious bargaining with his European partners. The resounding backing that the prime minister secured last night from Conservative MPs at the conclusion of the two-day Commons debate on Europe did not dispose of the political perils.

The awkward gyrations over whether there might be a referendum on the issue of a single currency gave notice of the battles ahead if Mr Major returns from Maastricht next month declaring peace in our time.

The government is still not sure that it can secure an agreement at Maastricht. The outstanding difficulties over the Community's role in the economic, and particular fiscal, policies of member state are unlikely to prove an insuperable obstacle to a treaty on monetary union.

But the cri de coeur from Mr Jacques Delors this week on the shape of the political union treaty was an awkward reminder that others might yet decide that an accord acceptable to Mr Major is one pot worth having.

Ministers are far from certain that the prime minister's good personal relationship with Mr Helmut Köhl will prevent the German chancellor from making a deal with President François Mitterrand that would leave the government isolated.

There are fears too that Spain's insistence on a commitment to large-scale financial transfers from richer to poorer nations could yet throw the whole negotiating process into chaos.

Mr Major implored his counterparts not to make the mistake of believing that he would accept at the 11th hour a treaty which gave substance to their federalist ambitions.

Mr Douglas Hurd spent much of last week's two-day conclave of foreign ministers doing the same. There is cautious optimism that the message has got through.

What remains to be seen is whether others in Europe see such warnings as a sign of weakness or of strength. They know that the government is seeking an agreement - that the political calculation in London is that isolation next month would jeopardise its electoral prospects next year.

Mr Major is ready to compromise further. If the tone of his speech to the Commons was dictated by the Euro-sceptics, the offers of further concessions were only thinly disguised.

He won cheers from his backbenchers for the lengthy list of concessions he pledged himself not to make. But as Mr Hurd indicated yesterday, the list included many no longer being asked of him. The structure of the draft political union treaty, with its intergovernmental pillars keeping foreign, security, interior and immigration policies outside of the Treaty of Rome, meets Britain's principal objective of limiting the jurisdiction of the European Court.

Mr Major is ready to sign up to a new intergovernmental conference in 1996 as long as there is no attempt to prejudge its outcome. The concept of European citizenship - so abhorrent to the Tory sceptics - holds no fears for Downing Street. Such concession do not begin to measure up to the grand visions of Mr Köhl or Mr Delors. But Mr Major wants and needs to translate them into a deal at Maastricht.

Douglas Hurd reaffirmed that Britain would be advocating a bigger role for the European parliament

# Constitutional do-it-yourself

IT was the day of the Do-It-Yourself constitutionalist at Westminster as Mrs Margaret Thatcher, the former premier, tossed a call for a referendum on a single currency into the already fermenting debate on European integration.

That nobody had properly thought out when it would be procedurally proper to hold a plebiscite under Britain's unwritten constitution was clear from the reaction of Downing Street.

First it appeared to be suggesting a referendum may be possible at some date in the future; yesterday it shifted back to outright opposition.

"On this issue I do not see a need for a referendum," Prime Minister Mr John Major told Mr Neil Kinnock, Labour Party leader, yesterday.

Mrs Thatcher created much of the confusion with her speech on Wednesday. Initially she described how "signing up to the concept of a single currency, signing up to its institutions" was to be, "driven into what I regard as a trap".

Some Tory Euro-sceptics saw that as endorsing a referendum on the outcome of the Maastricht EC summit – presumably after the general election when the legislation required to ratify the treaties on economic, monetary and political union would be presented.

But later in her speech Mrs Thatcher said that if "at some point in the future there should be agreement between the parties in the House [of Commons] to abandon the right to issue the pound sterling . . . the people would have no choice at an election time about that enormously important point."

This, government ministers argued, would imply delaying a referendum until, say, 1996 or 1997 when a decision on whether to join a single currency was about to be taken under the "opt-out" for Britain in the draft treaties.

Mr Francis Maude, financial secretary to the Treasury, said on BBC Radio that Mrs Thatcher had been arguing that, "in certain rather restrictive circumstances, [it] might, when a decision arose on a single currency . . . be right to have a referendum then."

Like Mr John Major later, he said that it would not be right to bind a future parliament to any such decision. What was not explained is why Mr Major was able to bind the parliament after the next election, when Maastricht will be ratified, but he was unable to bind a later parliament, when a single currency came into effect.

One senior official tried to solve the conundrum by claiming, rather disingenuously, that Mr Major was confident of winning the general election.

Mr Major's refusal to completely rule out a referendum raised speculation that he feared having to revise his position later.

EDUCATION

# Industry should inject resources in college sector

By Andrew Adonis

EMPLOYERS ought to play a greater role in shaping the future of higher education in the UK, ensuring that research and student courses better reflect the needs of the economy, Mr Kenneth Clarke, education secretary, told the Confederation of British Industry yesterday.

Addressing a CBI conference on higher education, Mr Clarke said public funds would continue to be the main source of higher education income. But, he added, companies should inject their own resources "to influence the development of the system" as it undergoes rapid expansion in the 1990s.

"The 'ivory towers' of academe belong to the past", he said. "Formulating and transmitting the right signals to students seem to me the most important contributions which employers can make to improving the match between higher education output and their needs". Government funding councils should also aid the process, he added.

The government gave a strong lead in that direction yesterday by announcing the appointment of Sir Ron Dearing as chairman-designate of the proposed Higher Education Funding Council (HEFC). The council is due to be established next year, provided legislation to merge the polytechnic and university sectors – currently before Parliament – passes.

Sir Ron neatly straddles the industry/higher education divide. A former chairman of the Post Office and currently chairman of a northern development company, he has been chairman of the polytechnics' funding council since 1988, overseeing rapid expansion in student numbers in the sector. His appointment runs for two years.

Also speaking at the CBI conference, Sir Ron highlighted three tasks for the HEFC: merging the two component systems, sustaining growth and protecting quality.

Mr Clarke stressed the importance of polytechnics maintaining their vocational identity once they become universities. "In two years' time we are likely to have over 90 universities in Britain, compared with 54 today."

## Borrowing rules should be relaxed

HIGHER education institutions should be allowed to borrow more freely if they are to meet government plans for expansion in the 1990s, Sir Ron Dearing, chairman of the Polytechnics' and Universities Funding Council said yesterday writes Andrew Adonis.

The government is projecting a 50 per cent rise in full-time student numbers over the next decade, aiming to provide a higher education place for a third of 18 year olds by the year 2000.

However, government funding for capital growth is not planned to match the rise in students.

Sir Ron, addressing a CBI conference on higher education, called for a relaxation of borrowing rules as one way to fund expansion.

Polytechnics have limited rights to borrow against exchequer-funded assets. "The whole of higher education would benefit by being treated as a business for the purposes of borrowing, and within a framework of prudential oversight by the Funding Council approved by the government, enabled to borrow to fund financially viable projects," he said.

Sir Ron warned that without such relaxation, inadquate accommodation could become an "impassable barrier" to expansion.


Colin Beere

In with the new: crew and family file aboard HMS Endurance and her successor, HMS Polar Circle.

THE ice-breaker HMS Endurance, the oldest ship in the Royal Navy and the symbol of the British presence around the Falklands Islands, was formally decommissioned yesterday.

In a ceremony at Portsmouth, south England, she lowered the White Ensign as the flag was raised on her successor, HMS Polar Circle. The 36-year-old ship's future is now uncertain and she may be sold for scrap. The Polar Circle has been chartered from a Norwegian company for a trial period to carry out work in support of the British Antarctic Survey. She will leave for the Antarctic on December 5.

## Labour plans sweeping reform of pensions

By Andrew Jack

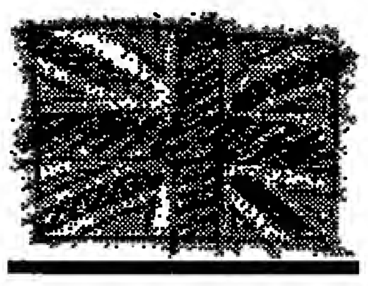
THE LABOUR Party plans sweeping changes in pensions if it comes to power at the next election, including efforts to end sexual discrimination in payments and give greater emphasis to occupational over private schemes.

Speaking at the autumn conference of the National Association of Pensions Funds yesterday, Mr Michael Meacher, spokesman on social security issues, said that Labour would follow the government's lead in delaying the introduction of limited price indexation – which provides for an annual increase in future pension payments of up to 5 per cent – until the Barber judgment is clarified next year by the European Court of Justice.

Clarification will determine whether the court's ruling that men must receive the same pensions on the same basis as women is to be applied retrospectively. If so, the costs to pension funds will be huge.

Mr Meacher said Labour would also abolish the incentive of 2 per cent of national insurance contributions that is given to those who opt out of the state earnings related pension scheme (Serps) and into personal pensions.

## BRITAIN IN BRIEF



### Exports to Iraq breached warning list

More than 17,000 kilogrammes of sodium sulphide which could have been used in chemical weapons were exported to Iraq in 1989 despite being on an official warning list, according to government evidence to be published by the House of Commons trade and industry select committee.

The consignment was one of three batches of chemicals exported by UK companies which breached the so-called Australia group's list of sensitive chemicals prior to Iraq's invasion of Kuwait.

### Wales to make smart cards

Maxcard of the US has awarded the first contract to manufacture 'smart cards' and the units in which they are inserted to Denis Ferranti Meters of Bangor, north Wales.

Smart cards, which are no bigger than credit cards, contain microchips that are said to be capable of holding 2,000 times as much information as existing cards. They could be used to store sets of maps, car instruction manuals or patients' detailed medical histories.

### ScottishPower plan approved

Mr Ian Lang, secretary of state for scotland, has approved a plan for upgrading the interconnecting power lines to the English border, clearing the way for the doubling of Scottish electricity exports to England.

ScottishPower, the larger of the two privatised Scottish electricity companies, said it expects to complete the project by the autumn of 1993.

### Nissan boosts training budget

The UK subsidiary of Nissan, the Japanese motor manufacturer, said it will spend 14 per cent of its total salary bill this year on training. An average employee will receive 8 "off the job" training days a year and 12 "on the job" days.

Although the figure takes account of days off work and hotel and travel expenses, it represents an extremely high proportion of expenditure. The opposition Labour Party is considering plans which would force all employers to spend 0.5 per cent of payroll costs on training.

### Marchioness prosecution

Mr Ivor Glogg, who lost his wife Ruth Hadden in the Marchioness river boat disaster, has been given leave to bring a private prosecution for manslaughter against the owner and four senior managers of the dredger Bowbelle.

The Marchioness sank in less than two minutes with the loss of 51 lives on August 20 1989, when it collided with the Bowbelle on the Thames in central London.

### Performance pay plan

Highlands and Islands Enterprise, the government-funded development agency for north Scotland, has become the first public sector organisation to unveil performance pay plans since the government launched its Citizen's Charter in July.

Employees will be eligible both for individually-based pay increases and rises based on the performance of the group in which they work. These will be on top of general increases for all employees.

### British Library tries to expand

The new British Library, the £450m development nearing completion on London's Euston Road, is asking the government for the return of 4.5 acres of land.

Three years ago the land was taken back by the government, which planned to sell it for development to retrieve some of the spiralling cost of the Library.

### Union opposes BAe break-up

The MSF general technical union has launched a campaign to stop British Aerospace being sold, split up, or merged, in particular with GEC.

The union, representing more than 10,000 workers in the group, said the continued independence of BAe was essential to avoid even greater job losses. Ten thousand job losses have been announced in the past 12 months.

### Oxford science park proposal

Arlington Property Developments, the property arm of British Aerospace, has submitted a planning application to redevelop 80 acres of the Rover car works at Cowley in Oxford from 1993 as a science park.

### Modest month for unit trusts

Unit trusts had a modest month in October, attracting net sales of £122.5m, down on the previous three months. But the net figure was positive for the 13th consecutive month, after a flurry of sales in mid-1990 following the invasion of Kuwait.

Gross sales were £877.7m and repurchases £755.2m. The total value of funds managed by the industry at the end of October was £58.5m.

### Oil exploration at record levels

Up to 220 oil exploration and appraisal wells could be drilled on the United Kingdom continental shelf in 1992, announced Mr Colin Moynihan, the energy minister. He said company responses to his department suggested that drilling programmes could continue at record levels.

Mr Moynihan said 156 exploration and appraisal wells were completed by the end of October this year, and the 1991 total was likely to be around 190 wells.

# Struggling to get the sums right

Organisations risk losing millions of pounds through inaccuracies that creep into their spreadsheets, according to a study conducted by Coopers and Lybrand Deloitte, the accountancy and management consultancy firm.

In an examination of 23 of its blue-chip clients with large spreadsheets (with more than 150 rows of data), the firm discovered that 21 produced errors that were wrong by more than 5 per cent.

Spreadsheets, often described as electronic pieces of paper, provide a way to store and manipulate large quantities of figures on computer in a series of rows and columns. Most are bought as commercial packages from software companies.

The Coopers' survey, conducted by its decision system group, part of the management consultancy arm which specialises in spreadsheet work, highlighted a number of horrendous miscalculations.

In one case, the net present value of a company under analysis was falsely inflated by 54 per cent. In another, pre-tax profits were incorrectly tallied at 32 per cent less than the actual figure.

"You don't get to hear about the biggest spreadsheet errors for obvious reasons," says Jonathon Batson, a member of the decisions systems group and author of a new booklet on spreadsheets*.

Spreadsheets are now heavily relied upon despite their relatively recent introduction, but few companies have any way of testing the accuracy of the results generated, the firm argues. The rapidly generated answers are far too easily accepted.

Spreadsheet users should agree in advance of writing any models the specifications required; compile a written list of assumptions to be used; employ experiences programmers; and test and document their use carefully.

**Andrew Jack**

* *J Batson and A Brown. Spreadsheet Modelling Best Practice. Institute of Chartered Accountants in England and Wales. £20. Tel: 0908 668333*

**Elisabeth Tacey** considers the ethical questions raised by scientific research

# The seeds of life

An American doctor with "The Sperm Firm" emblazoned on his T-shirt who offers prospective parents what he describes as "the ultimate consumer choice" – *of their next* child's sex – is soon to see his technique used in the UK. Dr Ron Ericsson has licensed his sperm separation technique to Dr Ravi Gupta, who will open a clinic in Walthamstow, North London, next month. Gupta will charge £350 for the service.

Ericsson and Gupta pose a problem for one person in particular, Flora Goldhill, chief executive of the Human Fertilisation and Embryology Authority, which regulates the clinics that help childless couples have babies.

Goldhill is concerned that choosing a child's sex for social reasons is not good clinical practice. But if Ericsson offers a couple his technique of separating the partner's sperm into "boy-making" and "girl-making" parts, the HFEA can do nothing to stop him.

The authority, which was set up on August 1, only covers procedures which use embryos outside the body, or donated eggs or sperm. The Ericsson technique involves a similar method to donor insemination, where the sperm is placed in the woman's vaginal tract.

"The first problem is that it *doesn't guarantee success,*" says Goldhill of the Ericsson process – Ericsson claims a success rate of 70 per cent. Second, if a clinic controlled by the HFEA wanted to offer the *technique,* Goldhill says, the regulators would have to be assured that it was for therapeutic reasons – usually to stop expression of a genetic disease. Haemophilia, for instance, is carried by both sexes but only affects males, so a couple carrying the disease might wish to have only girls.

The method used by HFEA clinics to achieve this is to examine embryos by looking at the chromosomes of the cells. The embryo or embryos of the appropriate sex are then implanted in the womb.

The Ericsson technique is based on the theory, supported by several researchers, that "boy" sperm move faster than "girl" sperm. Ericsson claims to be the first to have devised a method of separation.

For Goldhill, however, there are more immediate problems. She is facing dissention from the doctors who work in embryo research over the requirements of the Human Fertilisation and Embryology Act, which was passed in November 1990 and which the HFEA is required to enforce.

Flora Goldhill: concerned that choosing a child's sex for social reasons is not good clinical practice

One especially thorny requirement of the act is that the names of egg and sperm donors have to be given to the HFEA. However, the Interim Licensing Authority (ILA), the voluntary body set up in 1985 as the fore-runner to the HFEA, had decided that donors could be anonymous.

The change in rules has meant that donors whose gametes (eggs or sperm) were in store on August 1 have had to be asked to sign a consent form. Initially it was proposed that clinics' sperm and pre-embryos (eggs have to be stored fertilised, as there is no method of keeping unfertilised ones) without the relevant consent be destroyed. This caused uproar among doctors.

"They wanted me to throw away 3,000 pre-embryos [fertilised eggs]," says Peter Brinsden, director of Bourn Hall Clinic in Cambridge, whose techniques produced Louise Brown, the first baby born following in-vitro fertilisation, and of the Hallam Medical Centre in London. "I said I would go to jail rather than destroy the eggs," he says.

The HFEA has now waived the requirement for pre-embryos and has granted a six-month transitional period from October 1 for sperm stocks to be used. Brinsden says that his clinics will use any remaining stocks for teaching: "We will try not to waste it."

But Brinsden is also angry about the Act's ruling that he cannot speak directly to a patient's GP or gynaecologist, which he says is "dangerous" and "unworkable". All information he wishes to pass on has to go in a letter via the patient, who can decide not to hand it over. "Should a woman have to go into hospital with a complication after treatment at the clinic, the hospital doctor cannot ring me to talk about it," he says.

"It's the most ridiculous thing I've ever heard. It goes against everything we have ever done as doctors. Everyone's up in arms about it" – an assertion backed by Dr Raget Boswamy of the Churchill Clinic in London, who argues that it should be sufficient to pass information to other doctors and be required also to inform the patient.

The root of the problems may be that the HFEA is having to learn from scratch the sensitive issues that the ILA had already learned. Dame Mary Donaldson, who chaired the ILA during its six years' existence, says she wishes the HFEA well but "I'm afraid it will become a bureaucratic machine," she says.

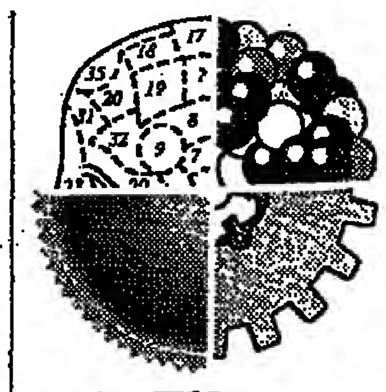
Part of the job of the HFEA is to inspect centres before granting them a licence, and to re-inspect them yearly after that. The HFEA's code of practice for clinics lays down rules for staff qualifications, the centre's facilities, counselling that must be available, assessment of patients and welfare of the child, and how gametes and embryos must be handled. The main treatments available are:

● In-vitro fertilisation (IVF), in which eggs and sperm are mixed in the laboratory to allow fertilisation. Up to three embryos are then transferred to the womb. Unused embryos are frozen for future use by the patient or can be donated to another couple, donated for research or thrown away, *depending on couples' consent.*

● Gamete intra-fallopian transfer (Gift), in which the three "best" eggs and sperm are immediately placed together in the woman's fallopian tubes. The gametes are collected in the same way as for IVF.

● Donor insemination, in which the sperm is placed in a fertile woman's vaginal tract, or used with IVF or Gift. Donors are matched for resemblance to the social father – such as hair and eye colour, build, ethnic origin and blood group. Up to 60 per cent of couples achieve pregnancy during treatment, which may involve several inseminations.

Centres also carry out embryo research which is permitted to improve the treatment of infertility, increase the knowledge of genetic diseases, develop ways of detecting genetically abnormal embryos, increase knowledge of causes of miscarriage or improve contraception. No research embryo can be implanted, or kept longer than 14 days.



## WORTH WATCHING

*by Della Bradshaw*

### Video market reveals itself

THE sophisticated monitoring techniques available to television broadcasters, to help *them calculate* which programmes are popular, could soon find their way into the videotape business.

AGB International, of London, a company specialising in TV audience research, has come up with a technique to monitor the viewing of pre-recorded videotapes. AGB believes the information would be useful to potential advertisers, who could use videos as a further source of marketing to television. Three hundred million videos are rented in the UK every year and a further 50m are purchased.

Video Track codes or "fingerprints" a pre-recorded video during manufacture with an electronic signal, identifying the video by title, distributor and type of film.

When the video is played in one of the 4,500 households monitored by AGB the signal is picked up by the meter *in the house.* AGB polls *all the meters overnight,* compiling the viewing figures on a mainframe computer.

A pilot service based on 15 pre-recorded videos is already under way.

### Foolproof guide to cooking

A CARDBOARD food carton, *the lid of which pops open* when the food is cooked, could help the most hesitant cook to produce a perfectly heated microwave meal.

The packaging could overcome the problem of what to do when the cooking instructions on the food packet refer to ovens with a specific power of heating different from your own.

The pack varies in design and thickness depending on the food inside, the time it takes to cook, the amount of steam it produces and so on. The lid is held in place by a strip of heat-shrink material fastened across the top of the package.

When the food heats in the microwave oven the interior of the package is at the temperature of the food, while *the exterior is at a lower temperature.* By the time the food is cooked, the outside of the package reaches a high enough temperature to melt the heat-shrink material – *thus causing the lid to pop* open.

Cambridge Consultants, of Cambridge, which designed the packaging, believes it could prove useful in the convenience food market.

### Glowing reports about champagne

A FILTRATION technique used in the French champagne and cheese industry is now being applied in the UK to clean up radioactive waste.

*The ultra-filtration process,* from the French company Tech-Sep, will be used by British Nuclear Fuels at its Sellafield plant in Cumbria to help clean effluents before *they are disposed of at sea.*

At the beginning of the clean-up process a precipitate of iron hydroxide is added to the effluent. The radioactive elements in the liquid *stick* to the precipitate and form a brown sludge.

The combined sludge and liquid are then pumped through 770 parallel tubes, each just a few millimetres wide and each made of a porous material. The liquid passes through the walls of the pipes while the sludge – down to sub-micron particles – is swirled through the tubes until it is collected as a solid at the end of the process.

### Teamwork across the networks

THE latest alliance of computer industry superpowers, Digital Equipment and Microsoft, is offering more than promises, writes Louise Kehoe.

Combining Digital's networking expertise with Microsoft Windows, the companies have come up with a set of applications programs, *including some of Microsoft's best* sellers, which enable personal computer users to work *together* in teams, over local or wide area networks.

The "Teamlinks" package includes Microsoft Windows versions of Excel, Word and PowerPoint presentation graphics as well as DECwrite and DECquery applications. Also included is electronic mail a router program for network administration, *distributed* shared filing and conferencing.

The Teamlinks package is priced in the US at $995 and will be available in March 1992.

### Smokers keep to their patch

THOSE eager to give up smoking *should soon have* a new aid in the US, where a transdermal patch, which delivers a controlled amount of nicotine into the smoker's bloodstream, has been *approved by the US Food &* Drug Administration.

The Nicoderm patch, which will be manufactured by Alza, of Palo Alto, California, and will be marketed by Marion *Merrell Dow, of Kansas City,* incorporates a rate-controlling mechanism to allow enough nicotine into the bloodstream to curb the craving many smokers experience *when trying to kick the habit.*

Marion Merrell Dow already markets Nicorette, the nicotine polacrilex gum, in the US.

### Christmas trees in snowstorm

WITH *Christmas* less than five weeks away a rival to the *traditional* Christmas tree has appeared on the European market – an artificial Christmas tree which "snows".

When the six-feet tall tree is plugged into the electricity a pump blows tiny weighted polystyrene balls up the hollow "trunk" of the tree. The "snow" hits a deflector at the top of the tree and the white specks filter down through the branches into a tray at the base. From there they are pumped back up the trunk.

Import company Anbro, of Rugby, is selling the £89.99 tree throughout Europe.

Contacts: AGB: UK, 081 967 4724. Cambridge Consultants, UK, 0223 420024. BNFL: UK, 09467 28333. Digital Equipment: US, 508 897 5111 Microsoft: US, 206 882 8080. Lotus Development: US, 617 577 8500. Alza US, 415 494 5042. Marion Merrell Dow: US, 816 966 4000. Anbro: 0455 550451.

## FT LAW REPORTS

# Syndicates must allow re-insurer to inspect documents

IN RE A COMPANY,
EX PARTE N.D. PRITCHARD
Chancery Division:
Mr Justice Hoffmann:
October 9 1991

A REINSURED will be restrained from advertising the winding-up of a reinsurance company for failure to pay claims, if the company has substantial reason for disputing the claims in that the reinsured is not obliged to provide it with particulars of settlements under original policies, and refuses to let it exercise its contractual right to inspect his books and papers before making payment.

Mr Justice Hoffmann so held when granting an *ex parte* application by a company for an injunction to restrain the advertisement of a winding up petition by members of three Lloyd's syndicates.

HIS LORDSHIP said that the petitioners in a winding-up were members of three Lloyd's syndicates who claimed the company owed them £59,911 on a treaty of reinsurance.

The company claimed that presentation of the winding up petition was an abuse of process because the indebtedness was disputed in good faith on substantial grounds.

The scheme of the reinsurance agreement was that *prima facie* the liability of the reinsurer arose on its being given notice of loss with "reasonable evidence of the amount paid".

Actual liability depended on settlement by the reinsured being within the conditions of both the original policies and the reinsurance treaties.

That would be a matter entirely within the knowledge of the reinsured, and therefore the treaty provided that although the reinsured could not be required to provide further particulars of its claim, its books should "be open to the inspection of an authorised representative of the reinsurers at any reasonable time during the continuance of this reinsurance or any liability hereunder".

Similarly, the notice of loss clause provided that all papers in connection with a claim should be "at the disposal of the reinsurers on this insurance or parties designated by them for inspection".

### The syndicate managers said the request for inspection was a device to postpone payment

The practice had been for the syndicate to submit quarterly statements of claims, which were treated as a running account.

In 1989 the company ceased underwriting and had since carried on business solely for the purpose of running off its existing and contingent liabilities.

On August 24 1990 a run-off company, which acted as the company's agent for the purposes of the run-off, wrote to the syndicates' brokers and asked to exercise the right of inspection.

The syndicate managers wrote on September 25 saying that there were claims unpaid and that no inspection would be allowed until payment had been received. The company was not willing to pay until it had been given the opportunity to inspect.

Neither party budged from those positions during a somewhat leisurely continuation of the dispute over the following year.

The petition based on the claims made was presented on August 2 1991.

On September 6 the company applied to restrain advertisement and strike out the petition.

The syndicates were unwilling to continue their previous undertaking not to advertise beyond the end of October 9 and Mr Chivers for the company therefore applied *ex parte* for an injunction over the *inter partes* hearing of his application.

Mr Hoser for the syndicates opposed the injunction. He took the view that if he were unsuccessful he would have no further arguments to advance at the *inter partes* hearing as to why the petition should not be struck out.

If he was successful, he intended to advertise.

It was agreed that in order to restrain advertisement, the court must be satisfied on the evidence that it would appear on the hearing of the petition that the debt was disputed in good faith and on substantial grounds.

Mr Hoser said that the company had put forward no grounds whatever on which it could dispute the debt.

He said all it could say was that it hoped some such grounds might emerge from its inspection.

Furthermore, he said, there was reason to suppose that the company was actuarially insolvent, if not actually unable to pay its debts as they fell due, and this cast doubt upon its *bona fides*.

The syndicate managers said the request for inspection was merely a device to postpone the time at which payment would have to be made.

In the ordinary case, it was not enough for the company to say an investigation yet to be undertaken might produce some grounds on which the debt could be disputed. But the terms of the reinsurance treaty make this a far from ordinary case.

The reinsured could make a claim based on nothing but its own assertion that it had suffered a loss within the terms of the treaty. No more particulars need be given and none had.

But for the protection of the reinsurer, it has a contractual right to inspect the syndicates' books and papers. It is only by exercising that right that the reinsurer could satisfy itself that the claim was properly done.

It does not seem that the syndicates were entitled to deny the right to inspect until all existing liabilities had been paid. The right to inspect only continued during the reinsurance period, and as long thereafter as liabilities remained outstanding.

If the syndicates were right, payment of the last liability, which they said was a precondition of the right to inspect, would be the event which brought it to an end.

Mr Hoser did not submit that payment could be a precondition of the right to inspect.

But he said that they were concurrent obligations and therefore, by the same token, the company had no right to refuse to make a payment *prima facie* due until it had exercised the right to inspect.

That might be true at the point when no request to inspect had been made and refused. But the situation was different if inspection had not been allowed. That was sufficient, given the particular terms of the reinsurance treaty, to raise the inference that there was a dispute on substantial grounds.

Just as refusal to pay an indisputable debt gave rise to an inference that the company could not pay and was therefore insolvent, so it seemed that a refusal to allow an inspection to which the company was plainly entitled gave rise to an inference that there were matters in the possession of the syndicates which would justify non-payment by the company.

### The reinsured could claim on nothing but its own assertion that it had suffered a loss

It would be unfair to allow the syndicates to enforce their claim by a winding-up petition when they had flatly refused to allow any inspection at all.

If there was evidence that the proposed inspection was excessive in scope or otherwise in bad faith, the court would take a different view.

All that was said, however, was that it was an attempt to postpone payment because the company was insolvent.

That does not cast doubt on the good faith of the exercise of the contractual right in August 1990. Even an insolvent company was entitled to exercise its contractual rights and to be treated fairly in accordance with the terms of the treaty.

No doubt if the syndicates had allowed an inspection in October 1990, the question of liability would long ago have been settled.

Mr Hoser said they were afraid that the company would use the inspection to create a smoke screen to avoid payment, but that was something to which any debtor might resort and creditors had to rely on the court's ability to detect whether a *bona fide* dispute existed on substantial grounds.

But the creditor was not entitled in breach of contract to deny the debtor access to the only material which would show whether or not the debt was owing, and then claim he had no material on which to contradict the bare assertion that it was due.

*For the petitioners: Philip Hoser (Bray Walker).*

*For the company: David Chivers (Paisner & Co).*

**Rachel Davies**
*Barrister*

### Correction

In Veracruz I (FT Law Report, November 19) appearances were: *For the seller: Michael N Howard QC and Timothy Brenton (Ince & Co). For the buyer: Charles Macdonald (Constant & Constant).*



## LEGAL NOTICES

No. 0012948 of 1991
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
In the matter of HAMILTON RENTALS (UK) LIMITED
AND in the matter of the Companies Act 1985

NOTICE IS HEREBY GIVEN that a Petition was on 13th November 1991 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of capital of the above-named Company from £3,400,000 to £2,436,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr. Justice Hoffmann at the Royal Courts of Justice Strand London WC2A 2LL on Monday the 2nd day of December 1991.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 18th day of November 1991.

ROITER ZUCKER
Regent House,
5 Broadhurst Gardens,
London NW6 3OX.
(Ref. DF)
Solicitors for the above-named Company.

No. 008895 of 1991
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF CAPARO INDUSTRIES PLC
AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated the 4th November 1991 confirming the reduction of the capital of the above-named Company from £1,250,000.00 to £1,002,305.40 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 8th November 1991.

DATED this 19th day of November 1991

Berwin Leighton
Adelaide House,
London Bridge,
London EC4R 9HA

Ref: R.

Agents for Edge & Ellison Calow Easton
Solicitors for the above-named Company.

SPORTS GAMES AND PASTIMES LIMITED

Registered number: 00677094
Trading name(s): Sportace and Screen Sport
Nature of business: Retailer & Wholesaler of Sports Clothing & Equipment
Trade classification: 22
Date of appointment of joint administrative receivers: 12 November 1991
Name of person appointing the joint administrative receivers: Barclays Bank Plc
John Frederick Powell and David Robert Wilton
(Office holder nos 249 and 292)
Cork Gully
43 Temple Row
Birmingham B2 5JT

PIKIT TOYS LIMITED

Registered number: 2196290
Nature of business: Toy Distributor
Trade classification: 15 Date of appointment of joint administrative receivers: 12 November 1991
Name of person appointing the joint administrative receivers: Union Discount Invoice Financing Limited
David Robert Wilton and Timothy Richard Harris
(Office holder nos 5708 and 2128)
Cork Gully
43 Temple Row
Birmingham B2 5JT

Bawtry Timber Company Limited

NOTICE IS HEREBY GIVEN, pursuant to Section 48 (2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at 1 East Parade, Sheffield, S1 2ET on 28 November 1991 at 12.00 noon for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

D J Stokes
Joint Administrative Receiver

12 November 1991

RULE 3.3 NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
CWP EASYFOOT LIMITED
Registration number: 1318517
Former Name: CWP Computers Limited
Trading Name: As above and Barefoot PC Training
Trade Classification: 36
Names and Addresses of Joint Administrative Receivers:
[illegible]
Date of Appointment: 18th November 1991.
By whom appointed: Bank of Scotland
Date of Charge: 25th March 1991
Nature of Charge: Debenture
T. M. Baines, Joint Administrative Receiver

## COMPANY NOTICE

LEEDS PERMANENT BUILDING SOCIETY
£250,000,000
Floating Rate Notes Due 1997

In accordance with the terms and conditions of the Notes, the interest rate for the period 21st November, 1991 to 21st February, 1992 has been fixed at 10.5625% per annum. The interest payable on 21st February, 1992 against Coupon 8 will be £268.02 per £10,000 nominal and £2,680.19 per £100,000 nominal.

Agent Bank and
Principal Paying Agent
ROYAL BANK OF CANADA

## SEMINARS



## CLUBS

## MANAGEMENT

James Buxton joins a team of plucky managers as they test their endurance to the very limit

# Ain't no river deep enough

"THE FISHING boat is taking water – we're sinking. You must abandon ship. Take off all your clothes apart from your pants, keep on your trainers and your personal buoyancy aids. Put all your clothes into a plastic bag and line up to swim to shore with your bag. Non-swimmers go nearest the stern."

Cursing, the bewildered group of senior managers on the adventure training course in the far northwest of Scotland scrambled to comply. About 75 yards away they could see the heavy swell breaking into surf on the steep rocky promontory.

In minutes the men were lining up to plunge into the sea. "Go, go, go," shouted the instructors as the boat started accelerating away from the island. Like lemmings they jumped off the boat. Suddenly there were 20 managers and four instructors swimming for shore, clinging to their little bags.

The surf whipped them on to the beach but then pulled them off again. Eventually a bridgehead was formed as men hauled themselves up the rocky beach, helping others out of the water and hunting for their bags. Some men had blood streaming from grazes on the barnacled rocks. One man was grey with shock. Two others who never made it to the beach were hauled back on to the boat. The rest donned their wet clothes and tramped off through the heather.

This was the ultimate test of the course run last month at Ardmore in Sutherland by John Ridgway, famous for rowing the Atlantic, sailing twice round the world and canoeing down the Amazon. The men were second line managers from RFS, a railway equipment company based in Doncaster, South Yorkshire.

Afterwards, back at the bunkhouse – which they reached after assembling rafts from plastic barrels and paddling to the mainland – most of the men were elated.

"I'd never felt more frightened in my life," says Kelvin Roberts, sales and commercial manager. "But I did it."

Later, at the debriefing, Ridgway, a tall man with a mischievous smile, – underlined the basic lesson of the day's exercise: "There's more in you than you think."

With my layers of sailing jacket and Barbour buttoned up I had come to watch the last 36 hours of the week's course, to see how desk-bound managers coped with commando training and to ask: "So what? What has all this got to do with running a business?"

Rebecca Ridgway

You must abandon ship. Take off all your clothes except your pants.

Steve Hinton, chief executive of RFS who led a management buy-out of what was then British Rail's Doncaster wagon works, says his main objective in sending senior staff to Ridgway was "to encourage team spirit and to improve communication across the group".

RFS, with 900 employees and turnover last year of £34m, designs, refurbishes and builds railway equipment. But Hinton admits: "We'd thought that in the enthusiasm you get in an MBO company, communications didn't matter all that much. In fact, we'd set up a group structure that encouraged the three subsidiaries to focus on their own business streams." The RFS men at Ardmore said that often they did not know people in other subsidiaries.

Hinton was persuaded by Clive Jelley, group human resources executive, who had been to Ardmore before, that pushing people from different units together in stressful conditions would break down barriers and forge friendships, as well as firing the men with new enthusiasm and testing their leadership skills.

At the beginning of the week the men were tense and irritable as they headed north from Inverness airport in a coach. But they were expecting to have a leisurely briefing and a comfortable first night when they arrived at Ardmore.

**Suddenly there were 20 managers swimming for shore, clinging to their little bags.**

Instead, says Dave Elliott, quality control manager, "the bus stopped in the middle of nowhere and Ridgway came on board. 'Now listen carefully,' he said coldly. 'You have 15 minutes to put in your rucksacks everything you will need for two days' and two nights' survival in the hills'."

Ridgway describes the ensuing panic as "a lot of headless chickens running about". Next, the men, divided at random into teams, set off in the rain through the peat bogs. They had to canoe to an island, erect some tents in the dark and prepare a meal from dehydrated food.

Next day the men, some in their 20s but ranging up to 61, had to climb the great mountain Arkle, light a fire and brew tea on the top. That night was spent in a hut. On the third day after a lengthy walk with the canoes over the hills, Ardmore came into sight, a cluster of buildings on a green hillside above a bay. "It seemed like the Hilton," one RFS man recalls.

Ridgway says: "The idea of the first two days is to give them a short sharp shock. First they are completely disoriented. Then gradually you put them back together again." He has applied this process, based partly on his training in the Parachute Regiment and SAS and partly on his own experiences, for the past 23 years to clients ranging from IBM to the graphics department of BBC Television.

By now the experience of coping with one horrific test after another has broken down the barriers between the men. "You begin to help each other and appreciate each other's strengths and weaknesses," says Elliott. Personality clashes get sorted out, Hinton says, "in heart-to-hearts on the mountainside."

Ridgway, who keeps an eye on all the activities "to spot the changing mood," tackles any misfits with his own directness.

From the beginning, every individual is given the task of leading a group, whose members are rotated according to an apparently random but actually computerised pattern. At the end of each task Ridgway points out its lessons at a debriefing. His recurrent theme is positive thinking: "A glass is usually either half-full or half-empty. Always think it is half-full."

Once relations within the group are more relaxed, the RFS men now intersperse their daily activities – such as abseiling or shinning up the mast of Ridgway's round-the-world yacht – with discussions on the business back in Doncaster, led by Jelley. There is earnest talk on possible structures for improving intra-group communications.

By the end, the RFS colleagues seem amazed at the strength of relationships that have emerged with colleagues they hardly knew before – "we're so much nicer to each other now" – at physical achievements they did not believe themselves capable of, and at unsuspected powers of leadership some have discovered in themselves. "It was far more useful than many a formal management course I've been on," said one.

As the course comes to an end, no one seems to think it wasn't worth it. But will the effect last? Hinton, who led the first party of top executives to Ardmore in the spring and went on the first few days of the second, believes it does. "Everyone who went on that first course came back better and stronger and has performed better," he says. Jelley says: "The bonds formed at Ardmore remain."

# How to make it in Japan

**Michael Skapinker** talks to a man who has

There is a chart that western doom merchants like to flourish when arguing that it is too late to stop the Japanese taking over the world.

It shows the world's top 10 manufacturers of the machines used for making semiconductors. No industry is more important than this one, the pessimists insist. The companies that make the machines control the companies that make the chips. And whoever controls those companies has *their hands around the throats* of the people who make everything from computers to "smart bombs".

The chart shows that in 1980 nine of the top 10 companies producing machines to make semiconductors were American, with a lone Japanese manufacturer in tenth place. The 1990 chart has Japanese companies in first, second, fourth, fifth and sixth places. Only one US company remains in the top five: Applied Materials was in third place in 1990, just as it was in 1980.

James Morgan, Applied Materials' chairman, says his organisation survived the onslaught by fighting the Japanese on their own territory. One third of Applied Materials' 1990 net sales of \$567m (£320m) came from Japan. In 1983 Applied Materials became the first foreign company ever to receive a loan from the Japan Development Bank. It used the money to build a research and development centre at Narita, near the Tokyo airport.

Morgan argues that no company can be internationally competitive unless it does business in Japan. First, Japan is a huge market.

*But a second and more* important reason to do business in Japan, he says, is the improvement it brings to your business in the rest of the world. In manufacturing quality and customer service, Japan sets the standard. Western companies are not only *competing against organisa*tions from Japan in their home market, but against western companies which have established a business in Japan and have honed their skills there.

Many of Applied Materials' western competitors complain that the Japanese market is closed to them. It is an argument with which Morgan has little patience. He is quite *ready to agree that Japan* adopts tactics the west regards as unfair.

Although most of the formal barriers to entering the Japanese market are gone, Morgan cites the lack of protection for intellectual property as just one example of difficulties western companies still experience in Japan.

However, he argues that the Japanese are not the only people who make it hard for foreigners to compete in their market. France, for example, is not an easy market to penetrate either, Morgan says.

He says that the most "unfair" weapon the Japanese use is their total concentration on the needs of their customers. At his London hotel, on the morning of this interview, *Morgan had gone down to* reception to ask for a newspaper. "The desk clerk was friendly, but he said I should have ordered the paper the night before. In Japan he would have gone around the corner and bought the paper for me."

While Japan is a difficult market in which to succeed, it is not impossible, as the experience of Applied Materials demonstrates. Together with his son Jeffrey Morgan, president of a software company, Morgan has written a book* containing the advice he wishes he had had before he entered the Japanese market.

The first thing a chief executive should do is read as much about the country and talk to as many people as possible. It is important not to commit yourself to a Japanese partner until you know what you are doing, Morgan says. Once links are established, you will be expected to keep them. Chopping and changing is not admired in Japan, Morgan says.

Morgan recommends that novices begin reading one of the English-language Japanese publications like the Nikkei Weekly. He also suggests making Japanese contacts in your home town – with people who work for the local branch of a Japanese bank, for example.

The next thing to do is to start visiting Japan. The most senior people in the company should make these visits and the initial aim should be to learn and make contacts.

It is vital, Morgan says, that senior management does not delegate these initial tasks. "Whoever makes the strategic decisions has to participate in the process. They have to do the reading and the travelling themselves if they're to understand the decisions that need to be made," Morgan says.

*Always be on the look-out* for a Japanese mentor – a consultant, retired executive, or a friend of a friend.

"When they do business in Japan, people tend to hand over to a joint venture partner or distributor. You need to be there as well. You need to have *your people in Japan managing* your side of the process," Morgan says.

You also need to ensure that you have a senior person at head office keeping contact with the Japanese operation. Morgan regards his failure to appoint such a person during Applied Materials' early days in Japan as his biggest mistake.

**Cracking the Japanese Market, Maxwell Macmillan, £18.95.*



THE BUSINESS SECTION ALSO APPEARS ON PAGE 4 TODAY

# Portrait power

**Susan Moore reviews the exhibition at the National Portrait gallery**

Straight ahead hangs the magnificent Madame Suggia with cello, bow and cascading burgundy gown in what is Augustus John's masterpiece. To the right, the ladies Stanhope and Effingham, who Francis Cotes graces with complexions of milk and roses, play act Diana and her Companion against a stage set English park. To the left stroll Gainsborough's newlyweds in "The Morning Walk", a gossamer web of gauzy lace, frothing fur, feathers, foliage and powdered hair.

That is our first, mouthwatering taste of the National Portrait Gallery's *The Portrait in British Art*, an exhibition which brings together a selection of portraits acquired by British public collections with the aid of the National Art Collections Fund since the charity's foundation in 1903. Further on, we find Gainsborough's "Mr and Mrs Robert Andrews", Hogarth's enchanting "The Graham Children", Arthur Devis's "Duet" – and we begin to realise that these much-loved images have helped shape the national consciousness of what is British art.

Portraiture is the quintessential genre of British painting. Its pre-eminence is due in part to a native distaste for religious painting – which smacked of Papism – and, equally potent, a peculiarly Anglo-Saxon form of ancestor worship. Such was the cult of the family even in the 17th century that portraits were commissioned of ancestors stretching back to the Norman Conquest. If one did not know who one's ancestors were, then one simply made them up. James I, faced with the vast array of portraits of the antiquarian Lord Lumley's family – real and imaginary – declared, "I didn't ken that Adam's ither name was Lumley."

As this show ably demonstrates, the voracious British appetite for likenesses could not be quenched by British painters. The lack of native talent brought a stream of foreigners to London to try their luck. More often than not they were second or third rate, with the glorious exceptions of Rubens and Van Dyck (represented by the melancholic Lord George Stuart).

Even after the establishment of a British school of painting in the 18th century, there was scope enough for the cosmopolitan polish of Zoffany or Soldi. Unsurprisingly, all the portrait busts on display are by sculptors from France and the Low Countries – Francois Dieussart, Roubiliac, Rysbrack, Nollekens.

The Englishman and Scot's love of himself, his house, his hound, his park – but surprisingly not his horse – is documented by all. Arthur Capel and his family are set against a bird's-eye-view of their meticulously rendered formal garden in the 1640s; 100 years later, Sir Roger and Lady Bradshaigh preside over their recently improved house and pleasure grounds.

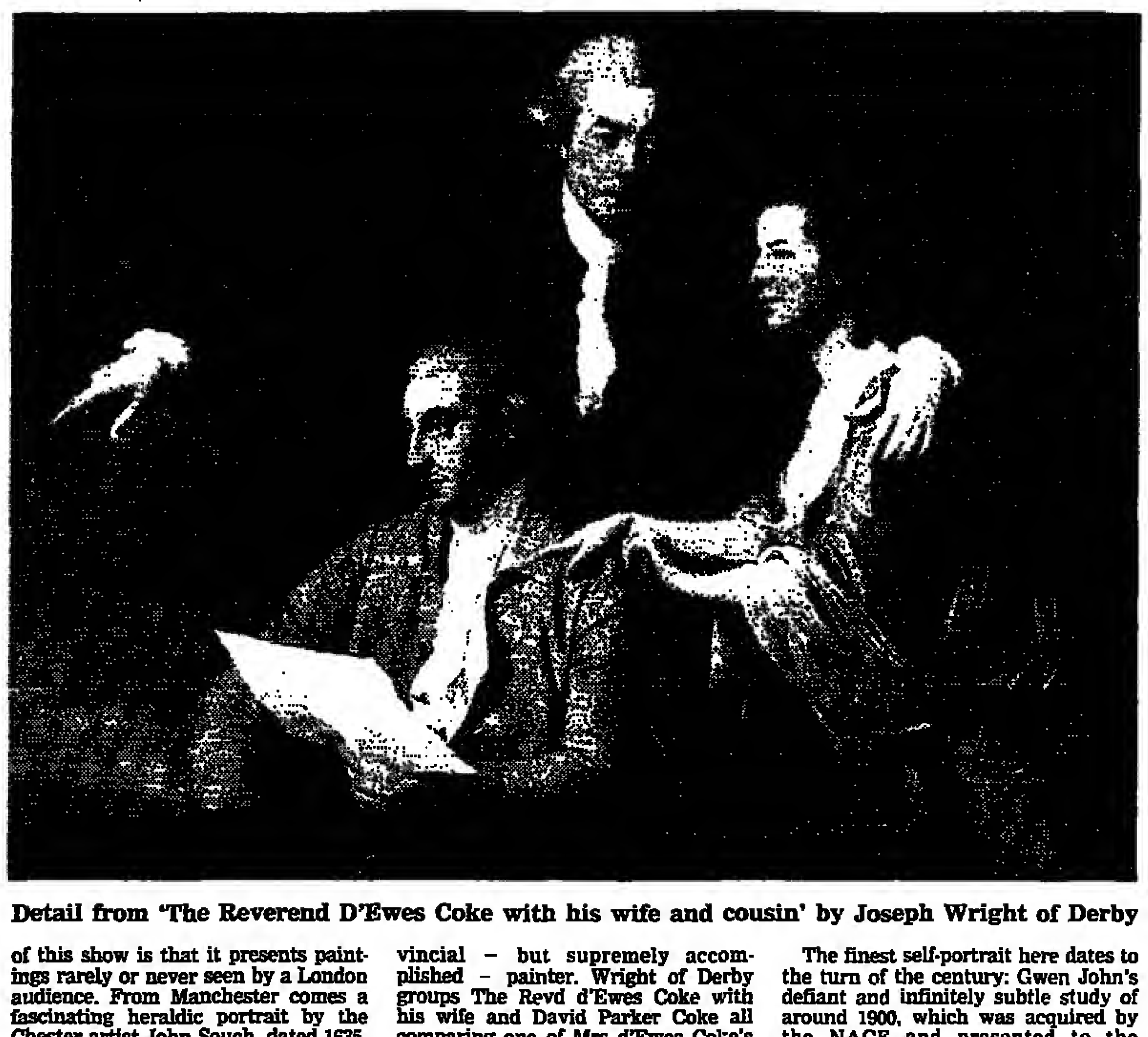
Particularly revealing is Ben Marshall's 1822 portrait of the 70-year-old Thomas Gibbs "Glory" Hilton, so named for his devotion to a favourite hound, Glory, who trots past with a fox's head. It is difficult to tell who is the more important. Even the fastidious Charles Towneley in his London study, surrounded, courtesy of Zoffany, by fellow connoisseurs and the best of the Towneley Marbles, sits with his dog Kam at his feet.

Appropriately, Zoffany's picture hangs permanently in the former Towneley family seat, now the art gallery in Burnley. One of the pleasures of this show is that it presents paintings rarely or never seen by a London audience. From Manchester comes a fascinating heraldic portrait by the Chester artist John Souch, dated 1635, of Sir Thomas Aston at the deathbed of his wife. The marmoreal Lady Aston lies on her bed as if carved on her tombstone, and in the foreground, dressed in mourning, he laments her death and that of her new-born child.

From Derby comes one of the most delectable portraits, again by a provincial – but supremely accomplished – painter. Wright of Derby groups The Revd d'Ewes Coke with his wife and David Parker Coke all comparing one of Mrs d'Ewes Coke's landscape drawings with the real view beyond. It is a masterly evocation of 18th century sensibility and familial affection. Characterisation is so fresh and vivid, and the Cokes so agreeable and natural in this clever composition, that they could almost step out of the canvas.

The finest self-portrait here dates to the turn of the century: Gwen John's defiant and infinitely subtle study of around 1900, which was acquired by the NACF and presented to the National Portrait Gallery in 1965. Portrait, like exhibition, is as much a celebration of British character as of the achievements of the National Art Collections Fund.

The exhibition, sponsored by Enterprise Oil, continues until February 9.



**Detail from 'The Reverend D'Ewes Coke with his wife and cousin' by Joseph Wright of Derby**

# Symphony in C

**COVENT GARDEN**

Balanchine's *Symphony in C* is a ballet radiant with light. When it was first staged, in 1947 at the Paris Opera, it was named *Le Palais de cristal*, and its rainbow designs told something of how Balanchine's genius refracted Bizet's youthful symphony into a dazzle of steps and luminous, heart-lifting invention. Now it has entered the Royal Ballet repertory, and it ends a new quadruple bill in glory.

If the glory was a little muted at Wednesday night's first performance, we may attribute that to the company's flag day tendencies. The dancers give the impression that they have to sell the movement with a battery of personal grace-notes and oh-so-ingratiating mannerisms, from sylphide arms to relentless smiles. None of this is needed, and experience of the text will allow them to rely upon the score and upon Balanchine's miracles in giving it flesh. A little more speed – tempi were too relaxed – and simplicity of means, and the choreography will look absolutely the marvel that it is.

It is a wonderful acquisition already, and among the soloists, Lesley Collier was happy with the allegro writing in the first movement; Sylvie Guillem had the unshakeable balances needed for the adagio, though she should not force the outlines of the dance; Fiona Chadwick is happily returned to the stage in the third movement, and Deborah Bull and, especially, Stuart Cassidy had the ebullience needed for the final allegro.

There was also Balanchine to open the evening, but if *Agon* is not taut, it loses all its motor impulse. Some of the cast looked bemused – the first trio was a non-starter – but the true *Agon* style was grandly present in the pas de deux. Here Eddie J Shellman appeared as a guest from the Dance Theatre of Harlem (who dance the ballet very well) to partner Darcey Bussell. This was excellent casting. Shellman's secure, bold presence was a perfect foil for Miss Bussell's clear, spacious dancing. She has that rare gift of always finding time – when time does not apparently exist – to finish a phrase, a step, without fuss or fever. This intense musicality, and her exquisite physique, are perfectly shown off by Shellman's dignity and no less truthful musical sense.

In the centre of the evening, two new pieces. Jonathan Burrows has developed part of his *Stoics*, greatly admired on this page, as a capriccio for the Opera House. Craig Givens has made a brilliantly economical set of black gauzes to box in the dance area. Luke Heydon, Natalie McCann, Deborah Jones and Simon Rice are outfitted in tops and trousers; and one of Mendelssohn's Songs without words brings a wild choreographic encounter to an end. Before that moment, the dancers have flailed, run, beaten their breasts, piled themselves up, kicked and stamped, while Miss McCann has behaved with exemplary sang-froid when being hauled and slung like a side of beef.

It is crazy, deeply funny, and sometimes disquietingly sad. Jonathan Burrows' choreographic world is one of hurts bravely borne, pain laughed off, laughter near to tears, and he has found a language – part gestural, part demotic, wholly original – to tell us of the stoicism he sees. It is mysterious, uneasy, and fascinating. The cast are superb.

About William Tuckett's *Present Histories*, receiving its premiere, I can but report that it is set to two slow movements from Schubert's D flat minor piano sonata – music alien to dance, I would hazard – and is concerned with three couples (and a housemaid, the only woman in point shoes) whose private worlds are exposed in singularly unconvincing fashion. There is little dramatic or emotional tension, and motivation and character seem commonplace. There is a good set – a skeletal wall; vast draperies – by Andy Klunder, and dull, vaguely '30s costumes, worn with aplomb by a gifted cast. In earlier ballets – *Those Unheard*; *Game* – Mr Tuckett has made intriguing works of atmosphere. I suspect that the virtues of *Present Histories*, which have to do with the choreography's response to nuances of human behaviour, would be better seen in minor intimate surroundings. The conversational tone of the dance is lost in an opera house.

**Clement Crisp**

Alastair Muir

**Darcey Bussell and Eddie J Shellman in Balanchine's 'Agon'**

# The fringe and provinces take a fresh look at classic theatre

There is simply no thrill in theatre-going like discovering in the theatre a classic you had never even known about, and this is why some of us say that the Gate, Notting Hill, is our favourite London theatre.

*Damned for Despair* (*El Condenado por Desconfiado*) is by the author of *The Last Days of Don Juan* (*El Burlador de Sevilla*), Tirso de Molina. London is lucky this year in that both of these, Tirso's best-known plays, are currently running here. If, like me, you knew neither previously, you discover from these two plays alone that he is one of the world's greatest dramatists. And one play casts fascinating light on the other. All those interested in Tirso's Don Juan should investigate *Damned for Despair*, where vice and damnation are treated in no less bold and entertaining ways.

This play places a pair of mortal men in a pair of moral scales. One man falls to doom, the other rises to light. Paulo, the God-fearing hermit, is deluded into believing that God has paired him with one Enrico. When he discovers that Enrico takes pride in wanton murder, rape and theft, Paulo is so horrified that he too turns to crime and cruelty. Such is his despair that he cannot believe Enrico's soul can ever be saved. But chinks in Enrico's heart lead him to repent at the last and to meet death with hope – whereas Paulo is so convinced of Enrico's damnation that he accepts his own.

Stephen Daldry's direction is wonderfully intense, and yet keeps varying the play's pressure. Timothy Walker, daringly, plays Paulo with no bid for sympathy, starting and ending as a fanatic. A pity that towards the close he grows too exaggerated and mannered. Lorcan Cranitch takes a similarly full-throttle approach with Enrico, but provides more light and shade along the way.

It is a sign of the production's excellence that Bob Barrett makes a more complex and subtle impression in a small role here than he did in the leading role of the Gate's last staging. Good playing elsewhere, too, especially from Mark Sproston as Paulo's servant Pedrisco. Tim Hatley's designs are ingenious. His costumes add lively modern twists to Renaissance-baroque attire; and his set, a huge revolving half-cylinder with windows and doors, ranks among the several brilliant ways in which the Gate has made its tiny stage space into a globe of surprises.

**Alastair Macaulay**

The reassessment of Greek tragedy from a woman's perspective has long been a staple of the Euro-fringe. At a small international festival in Austria a few years back, every two-bit bandbox concealed an Attic murderess. A couple of recent incarnations of Euripedes' *Medea* have taken the analysis a stage further by steering the tragedy right away from its European roots. In both cases the directors are women, and in both the adaptors are men.

After Steve Carter's exuberant and sexy Caribbean reworking, *Pecong*, directed by Paulette Randall at Kilburn's Tricycle Theatre, here from Phyllida Lloyd at Manchester's Royal Exchange is a *Medea* that offsets an elegant but unexotic script (Kenneth McLeish and Frederic Raphael) with a thrilling choral score from Gary Yershon of pounding drums and wailing women.

Medea is black; Jason and Creon are white; but it is the mixed chorus that is the production's most interesting feature. Robed and veiled like the inhabitants of a harem, they sit whispering around the edge of the circular stage or launch into ritualistic stomping chants. African theatre shares with the Greeks an ease with ritual: it has no problem bridging the gap between the everyday intimacies of court life and the formal exclamations that fall to the lot of the chorus.

Thematically, the production uses cultural diversity to suggest the monumental clash of values that makes the tragedy. Having been taken by marriage from her own defeated country, Medea is jettisoned by a husband who is patronisingly happy to keep her children on as part of his new family. She has been treated well, he reasons. What grounds can she have for complaint?

Ray Jewers' Jason is not so much cruel as complacent. His selfish desire for the security and prosperity that would come from a royal marriage makes Medea invisible to him. John Southworth's Creon too has the weary reasonableness of the old-fashioned white liberal. The fury of a woman scorned merges with the rage of an abused people in Claire Benedict's regal, racked Medea, whose self-annihilating revenge is simply beyond their imaginations. In her slender form lies the tragic backlash of the colonised against the coloniser.

**Claire Armitstead**

*A Midsummer Night's Dream*, staged at the Lilian Baylis Theatre by The Magnificent Theatre Company, will beguile a long winter evening but will leave one wanting something more substantial. This production puts activity ahead of energy, and has yet to find an amplitude in Shakespeare to balance its forays into sexual desire and role-play.

The play opens in high excitement; the actors swarm on stage to the pounding of drums, and the argument about Hermia's future seethes with serious intent. But the action loses its way and its momentum out in the wood near Athens. There are two reasons for this: first, the production does not trust Shakespeare's plot to drive the situation forward; and second, the verse-speaking is too superficial and fails to find moments of calm in a reeling world.

A tree wrapped with a helter-skelter and daubed with flags stands at the centre of an expansive set. But the actors cluster round it, rarely using the full sweep of the stage. Their scope is further limited by lighting which cuts the visible playing area. The Commonwealth period costumes call up the time when theatre was restricted, but that seems to be the only nourishment that Mark Brewer's direction takes from the past.

Titania-Hippolyta (Tessa Wojtczak) is a petulant and sexy presence, a study in erotic reverie. Her brawling partner, Oberon-Theseus (played by the excellent Paul Spence) is a powerful opponent and a coolly ironic master of ceremonies. He is aided by a hyperactive Puck, played by the versatile Daniel Illsley, in goatskin chaps and codpiece. Together with Ben Crocker's aptly confused Bottom, these actors keep the play afloat. A dignified Peter Quince (Tony Lound) rounds up the rude mechanicals.

The two pairs of lovers contrive themselves into a mobile disagreement, and their quarrelling is visually very funny. However, a breathy Hermia (Lucie Fitchett) turns out too much like Bo-Peep in pink, and a shrill Helena (Harriet Whitbread) shrieks her way out of credibility.

**Andrew St George**

# Concentus Musicus Wien

**QUEEN ELIZABETH HALL**

While the tidal wave from Nikolaus Harnoncourt's titanic performance of Beethoven's Ninth Symphony earlier in the year continues to cause ripples of admiration, there is a ready audience for any appearance by the conductor. In theory, the sum total of this 18th-century programme was modest, but Harnoncourt invariably has big things to say even about small works.

For Tuesday's concert he was joined by the Concentus Musicus of Vienna, the trusty original-instrument band with which he set out on the long journey to record the complete Bach cantatas. By now its members must know Harnoncourt's individual style pretty intimately. In Mozart and Haydn, the two composers in this programme, that means performances of scalding attack and drive, as though each musician is playing with a fire in his belly.

Dynamism is the essential feature. In each of the symphonies – Mozart No.33 and Haydn No.60, "Il distratto" – the minuets went at a typically vigorous pace, all stamping feet and whirling skirts, a long way from the usual picture of classical gentility. A tendency to slow down abruptly at the return of the main theme each time caught the conductor at his most heavy-handed. But the performances of both symphonies were so full of life and perceptive musicianship that one felt bound to take the whole package as Harnoncourt sees it.

When a vocal soloist is called for, it would hardly do to pair this conductor with a merely pretty "original instrument" voice. Eva Mei is somewhat more than that, for her soprano has a firmness about it which makes up for any want of colour. It is the top of the voice, though, that makes her a singer to be reckoned with.

In the scheduled items on the programme, a pair of shortish miscellaneous arias by Mozart and an even slighter one by Haydn, she sang nicely enough but gestured to excess. Once into her encore, Mozart's "No, che non sei capace", K.419, no gestures were needed, for a real singer suddenly stepped forward, running up and down her scales to top C's and D's with an agility that promises a Queen of Night or Constanze. She provided all the notes and Harnoncourt, inevitably, the dramatic fire.

**Richard Fairman**

## INTERNATIONAL ARTS PREVIEW & EXHIBITIONS

**The opera season at La Scala, Milan, opens on December 7 with Parsifal. It marks a further step into Wagnerian territory for Riccardo Muti, whose initial encounter with Wagner opera – Der fliegende Holländer three years ago – was enthusiastically received. Parsifal will be staged by Cesare Lievi in designs by Daniele Lievi, Peter Laher and Ettora D'Ettorre. There will be a total of nine performances (till Dec 29), with the title role sung by Placido Domingo at the premiere, and by Gary Lakes and Warren Ellsworth in some of the later performances.**

**The season also includes Auber's Fra Diavolo with a cast including Luciana Serra (Jan 15); the Bavarian State Opera production of Arabella, with Felicity Lott and Nancy Gustafson sharing the title role (Feb 1); Jonathan Miller's production of Manon Lescaut (Feb 25); La traviata, La donna del lago and Gluck's Iphigenie en Tauride, all conducted by Muti; plus two Donizetti operas, Lucia di Lammermoor and Cristoforo Colombo. Next June, Myung-Whun Chung will bring the Paris Bastille production of Lady Macbeth of Mtsensk.**

**Most of the other main Italian theatres are due to re-open in the next three weeks. The Bologna season begins tomorrow with Werther, conducted by Riccardo Chailly, staged by Hugo de Ana, with Giuseppe Sabbatini in the title role (ten performances till Dec 15). The season also includes Tancredi (Jan 10), Roberto Devereux (Feb 16) and Zandonai's Francesca da Rimini (March 21). In Venice, the Teatro La Fenice has chosen Don Carlo as its curtain-raiser, with a cast led by Samuel Ramey and Daniela Dessi (Dec 15). Among the works featured later in the season are Rigoletto (Jan 17), Porgy and Bess with a cast including Willard White and Cynthia Haymon (Feb 21), The Turn of the Screw and Tristan und Isolde.**

**Next Tuesday, Genoa hosts its second production in the newly-reconstructed Teatro Carlo Felice. Un ballo in maschera will be conducted by Fabio Luisi, with a cast headed by Maria Guleghina, Kaludi Kaludov and Giorgio Zancanaro (eight performances till Dec 11). This is followed by Simon Boccanegra with Renato Bruson, Mirella Freni and Nicolai Ghiaurov (Jan 16), Il barbiere di Siviglia (March 7), Carmen, Don Carlo and Rossini's Le siège de Corinthe.**

## EXHIBITIONS GUIDE

**BERLIN**

**Nationalgalerie** Otto Dix: a major retrospective marking the centenary of one of the towering figures of 20th century German art, renowned for the bitter realism of his portraits, brothel scenes and visions of war. The exhibition brings together more than 350 paintings from public and private collections around the world. Ends Feb 4. Closed Mon and Tues

**BONN**

**Frauen Museum** Role models of the Nazi era: an exhibition focusing on how artists followed National Socialist ideology in their portrayal of men and women, and contrasting this with the standpoint of the German avant-garde before the Third Reich. Ends Jan 12. Closed Mon

**BORDEAUX**

**Musée des Beaux-Arts** Trophies of the Hunt: more than 50 paintings from the 17th to the 19th centuries, illustrating how the hunt was used as a decorative and allegorical subject by artists of the great European schools. Ends Jan 21. Closed Tues

**BRUSSELS**

**Palais des Beaux Arts** Portugal: Triumph of the Baroque. Paintings, sculpture, jewellery and religious art from Portugal's heritage. Ends Dec 29. Closed Mon, late closing Wed

**CHICAGO**

**Art Institute** Martin Puryear: 50 works by the American sculptor, who combines modern and non-Western traditions. Ends Jan 5. Also Grave Goods from Ancient Cultures: 40 objects illustrating burial customs of ancient civilisations. Ends Feb 25. Also From Pontormo to Seurat: 61 recently acquired master drawings by Gainsborough, Delacroix, Monet and others. Ends Jan 5. Daily

**COLOGNE**

**Museum Ludwig** Liubov Popova: 122 paintings and works on paper by a leading figure of the early 20th century Russian avant-garde. Ends Dec 15. Closed Mon

**GENEVA**

**Musée d'art et d'histoire** Magnificent Switzerland: 80 views in oil and watercolour by major European artists of the 18th and 19th centuries, including Turner, Corot, Bierstadt and John Singer Sargent. Ends April 2. Closed Mon

**GENOA**

**Palazzo S. Giorgio** Silk in Genoa 1491-1991: an exhibition showing the importance of the silk industry to Liguria over the past 500 years, with 100 of the finest precious items on display. Ends Dec 31

**LONDON**

**Tate Gallery** Giorgio Morandi (1890-1964): 48 etchings provide the chance to see a neglected aspect of the work of one of the great figures in modern Italian art. Ends Feb 9. Also Gerhard Richter (b1932): first major survey in Britain of one of Germany's most eminent living painters. Ends Jan 12. Also Anthony Caro (b1924): new and recent work by the British sculptor. Plus Turner's Rivers of Europe. Ends Jan 26. Daily

**Royal Academy** Katsushika Hokusai (1760-1849): the most celebrated Japanese artist in the West. The exhibition includes sketches, paintings and 150 printed works from public and private collections throughout the world. Ends Feb 9. Daily

**Barbican** Japan and Britain: an aesthetic dialogue 1850-1930, with works by Whistler, Mackintosh and others who contributed to the exchange of influences. Ends Jan 12. Daily

**Hayward Gallery** Toulouse-Lautrec: the most comprehensive exhibition of his work ever held in UK. Ends Jan 19. Daily

**National Gallery** The Queen's Pictures. Ends Jan 19. Daily

**Serpentine Gallery** Ulrich Ruckriem: first London exhibition of Germany's leading sculptor. Ends Dec 1. Daily

**Victoria and Albert Museum** The Magi and The Gift: the story behind the tradition of Christmas gifts, told through French Renaissance stained glass windows, Italian majolica, illuminated manuscripts, woodcuts and etchings by Durer and Rembrandt. Ends Jan 12. Also Visions of Japan, centrepiece of the Japan Festival. Ends Jan 26. Daily

**MADRID**

**Museo del Prado** Jusepe de Ribera: retrospective, drawn from the Prado's own collection, of the 17th century painter whose Spanish realism was softened by contact with the Carracci, Velazquez and the Venetians. Ends Dec 29. Closed Mon

**NEW YORK**

**Whitney Museum of American Art** Alexander Calder (1898-1976): more than 50 works by one of the most innovative and best loved of American sculptors, known for his mechanical ingenuity, practicality and humour. Ends Feb 2. Also Alexis Smith (b1949): a mid-career survey of the Californian artist who has re-invigorated American collage in the past 20 years. Ends March 1. Closed Mon

**Metropolitan Museum of Art** Stuart Davis (1894-1964): the first retrospective of the American modernist for more than 25 years, with 175 paintings, murals and etchings. Ends Feb 16. Also a major Seurat exhibition and another devoted to his neo-impressionist followers. Ends Jan 12. Closed Mon

**Jewish Museum** From Expressionism to the Resistance: Art in Germany 1909-1936, tracing the development of Expressionism and the reaction to it in the Neue Sachlichkeit. Ends Jan 25

**PARIS**

**Galerie d'Art St Honoré** Flemish landscapes of the 16th and 17th centuries. Ends Dec 20. Closed Sat and Sun (267 rue St Honoré)

**Grand Palais** From Watteau to David: 70 works from the school of 18th century painting, in which mythological themes offer a pretext for glorifying feminine nudity. Ends Jan 6. Closed Tues, late closing Wed

**Grand Palais Géricault**: retrospective marking the 200th anniversary of artist's birth. Ends Jan 6. Closed Tues, late closing Wed

**Grand Palais** A Golden Age of Decorative Art: 350 works dating from 1814-1848. Ends Dec 30. Closed Tues, late closing Wed

**Musée de l'Orangerie des Tuileries** Derain: more than 60 works by one of the original Fauves, focusing on his early years. Ends Jan 20. Closed Tues

**Musée d'Orsay** Munch and France: the interaction between Munch and French art resulting from his visits to Paris between 1885 and 1908. Ends Jan 5. Closed Mon, late closing Thurs

**ROME**

**Villa Medici** Matisse: Themes and Variations. Nearly 100 works from the Henri Matisse Museum in Nice, showing how Matisse explored his favourite themes (female nudes and faces, still-lifes) in different techniques, from charcoal sketches to oil paintings and sculpture. Ends Dec 29. Closed Mon

**WASHINGTON**

**Museum of Natural History** Seeds of Change: an exhibition marking the 500th anniversary of Columbus' voyage, with a look at the impact of animals, crops and disease on native Americans and the Old and New Worlds since 1492. Ends April. Daily

**National Gallery of Art** Albert Bierstadt: Art and Enterprise. The most comprehensive collection of work ever assembled of the epic 19th century American landscape painter. Ends Feb 17. Also Circa 1492: Art in the Age of Exploration. Ends Jan 12. Daily

**National Museum of Women in the Arts** Presswork: the Art of Women Printmakers. A selection of prints illustrating the diversity of styles and processes in the US over the past two decades. Ends Dec 1. Daily

**Renwick Gallery** Albert Paley: Sculptural Adornment. Pins, broaches and neckpieces of unconventional body sculpture made of copper, gemstones, gold and silver. Ends March 22. Also Improvisation in African-American Quiltmaking: 24 quilts and four African textiles provide evidence of a powerful tradition maintained by artists with no formal training. Ends Jan 5. Daily

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# Impasse on farm trade

SO NEAR and yet so far: is this to be the epitaph on the Uruguay Round of multilateral trade negotiations? Hopes were raised by the summit between the US and European Community in the Hague on November 9. Even so cautious a participant as Mr Ray MacSharry, the farm commissioner, said afterwards that he was more optimistic about a successful, balanced outcome before the end of the year. Unfortunately, what the EC considers balanced the US continues to view as one-sided. As a result, the follow-up talks in Geneva appear to have reached an impasse, yet again.

Further compromises are now required, compromises that will probably demand direct intervention by the heads of government, as promised at the July summit of the group of seven industrial countries. However tough the extra movement may be, the prize is so important and the movement already made so large that failure to take the last step would be unpardonable.

On what are the two sides now divided?

First, while there was apparent agreement on a 35 per cent cut in export subsidies and a 30 per cent cut in other forms of support, no agreement has yet been reached on the base line from which those cuts are to be measured, with the EC now suggesting a compromise of 1986-90 and the US still insisting on 1986-88.

Second, the US wants the cut in export subsidies to be backed up by a limit on export tonnages, while the EC suggests a mixture of volume restraint and cuts in budget allocations, an approach in which the US has limited confidence.

### Rebalance assistance

Third, the EC wants to be able to "rebalance" its reductions in support with increases in protection against the cereal substitutes that enter duty free.

Fourth, the EC wants the compensatory payments for price reductions to be in the so-called "green box" of permitted subsidies, while US deficiency payments should be in the "amber box" of subsidies that are to fall within the limits set upon assistance. The US argues that both sorts of assistance should be in the same box.

Fifth, the US wants the EC to commit itself to further reductions in support after the initially agreed changes have been implemented. But the EC is prepared only to accept a commitment to a review.

These issues may sound merely technical. They are not. Among them are matters of great importance to the two sides. Yet however important they may be, is compromise impossible? When considering their answer to that question, both sides need to bear a number of facts in mind.

### Bush's moves

The EC, for example, should recognise that President Bush has accepted very substantial dilution of the initial US aim of complete elimination of trade-distorting assistance. No less should the EC recognise that the American aim, the substantial reduction of expensive programmes that inflict great damage on world trade, is in everyone's self-interest, including its own.

For its part, the US should recall that major reforms of the Common Agricultural Policy are under way. Once started, this process of reform is unlikely to be halted. Farm reform, like Rome, could never be built in a day. Furthermore, a total breakdown in negotiations could not possibly be better than a deal that is not too far from what is now on the table.

Above all, both sides must remember that far more than farm trade is at stake. Upon a successful compromise hinges completion of the Uruguay Round, which, in turn, will determine the future role of the Gatt in the world trading system.

A compromise has to be reached. If compromise is not within the brief of the negotiators, the hot potato falls once more into the laps of the heads of government. What with the collapse of the Soviet Union, the civil war in Yugoslavia and the forthcoming EC summit at Maastricht, there is nothing they will want less. But there is only one way to cool this potato for good. It is to reach the agreement that is now so tantalisingly near.

# Towards a single 'phone market

EFFICIENT transcontinental telecommunications networks underpin the US economy. Europe, by contrast, makes do with a patchwork of domestic networks. However efficient these networks may be for local communications – and most are far below US standards – communicating from one end of the continent to the other is frustrated by high prices, poor quality and a web of monopolistic restrictions.

This may not improve much when the single European market is officially inaugurated at the end of 1992. Aware of the risk, the European Commission's competition directorate is already investigating cartel practices on international routes and is expected to press for monopoly rights in voice communications to be abolished when they are reviewed next year.

Most of the 'phone companies – and the governments which typically own them – are likely to put up stiff resistance. It is vital therefore that user groups and others with an interest in more competitive markets organise themselves now for a tough fight.

The heaviest burden Europeans bear as a result of the continent's fragmented networks is the price of long-distance calls. A three-minute call from Boston to Washington DC – a distance of about 650km – costs the user 69c at peak rates, says the consultants, Logica. But a call from Paris to Milan, about the same distance, costs FFr11.37 ($2.08), nearly three times as much. One from Milan to Brussels, again the same distance, is four times as much – L3,556 ($2.94). At off-peak times, the disparity is even greater.

### Crossing frontiers

Although crossing frontiers is particularly expensive, long-distance calls within one country are also costly by US standards. A call from Marseilles to Paris costs FFr6.51 ($1.19), while one from Naples to Milan is L2,113 ($1.75). US consumers can call from Miami to Anchorage – 10 times the distance – for only 91c.

The European Community's telecommunications market is shrivelled by comparison with the American. There are 20 per cent fewer phone lines per head of population and each line is used only a third as much. Innovations – such as freephone services, voice-messaging, call-waiting and call-forwarding, which encourage people to use the phone more and improve productivity by making sure they receive more of their calls – are also vastly more common on the other side of the Atlantic.

### Telephone culture

Some people might argue that the difference between Europe and the US is not to do with market structures, but is a reflection of American "telephone culture". This, though, ignores the fact that the US telephone culture is itself a product of a vigorously competitive market. Competition has forced prices lower, which has increased efficiency and boosted usage. The need to win customers has encouraged innovation and improved the quality of service. Telephone companies have also fought high-profile marketing battles with each other, which has further expanded the market.

The same medicine is needed in Europe. It would be best to start by liberalising international communications within the EC, because that is where the biggest distortions lie. Anybody should be able to operate networks between Milan, Frankfurt, London, Paris and Madrid. A further reason for starting with European routes is that this is an area where the Commission's authority to act under the Treaty of Rome seems clear.

Once competition is established on European routes, it would only be a matter of time before it caught on for domestic routes. Otherwise, customers would be able to "arbitrage" high-cost domestic calls by routing their traffic through low-cost international hubs.

If the US market is anything to go by, even the telephone monopolies should benefit from greater competition. Lower prices in the US have been more than counterbalanced by higher usage, with the average American spending more than twice as much money on telecommunications as the average European. If they were rational, the monopolies would be campaigning for their own abolition.

The introduction of competition to the supply industry will pose huge challenges for British Gas, says **Deborah Hargreaves**

# Problems in the pipeline

When British Gas unveiled its results for the first half of this year to the City yesterday, shareholders were looking for more than the customary earnings forecasts. They were hoping for assurances that the company – Britain's fifth-largest – expects to survive in something like its current form until this time next year. They could be forgiven for feeling disappointed.

The reason is simple. Within the next six weeks, British Gas will hold negotiations with the Office of Fair Trading which will determine whether it has to dispose of two-thirds of its assets. If these talks fail, it faces an investigation by the Monopolies and Mergers Commission which may force still more radical change – perhaps its eventual break-up. Behind all this is a government that has decided it wants to reduce British Gas's market clout.

The OFT's proposals – contained in a highly critical report published in October – will not take full effect for some time, which explains in part why British Gas's share price is reasonably buoyant. At present the company cannot fail to make money out of its captive UK household market.

But this cannot hide the government's determination to introduce competition to the gas supply industry, which means confronting the utility with its biggest challenge since privatisation. The City is asking whether British Gas's management, under the chairmanship of Mr Robert Evans, is equal to the task of defending its core UK business.

The OFT dispute is only one of several difficulties:

- British Gas is under increasing pressure from the industry regulator, the Office of Gas Supply (Ofgas). Mr James McKinnon, director-general of gas supply, has imposed a tough new pricing regime which could hit the company's profitability when it comes into effect next April.
- The company has been involved in a damaging row with the government and with would-be customers over the sudden price increase it imposed for gas supplies destined for a new wave of gas-fired power stations – in the process exposing itself to charges that it was failing to meet demand in a promising new market.
- Faced with such problems in its all-important domestic business, British Gas has been trying to diversify into exploration and production of oil and gas overseas, where it can be sure that profits will not be eroded by regulatory pressure. This is a business of which it has some knowledge; it was stripped of its oil exploration interests by the government before privatisation. But even here, it has not developed a clear strategy and some international investments have proved disastrous.

British Gas's difficulties are not all its own fault. Its managers – a close-knit clan who share a background in gas engineering – justifiably point to their success; they have brought a reliable supply of gas, at reasonable prices, into 17.8m UK homes. They feel strongly that they have worked hard to increase competition in the UK, and that British Gas has become a victim of political forces beyond its control since privatisation in 1986. "Make no mistake," said Mr Evans recently, "privatisation does not end government influence. Indeed it increases it significantly."

To some extent he is right, but he should not be surprised. At its own demand, British Gas was privatised as a single, monolithic company. The company retained much of its monopoly power in the UK gas market, and has used that power to maximise profits. There were many warnings at privatisation that the industry's structure would discourage competition.

"What the OFT report is saying is that the government got privatisation all wrong and now we've got to go back and change it," says Mr Jonathan Stern, gas expert at the Royal Institute for International Affairs. "The trouble is that no one has a vision of what they want to create."

Now the issue has come to a head. The OFT's October report accused British Gas of not doing enough to encourage competition. It recommended that the company sell its pipeline and storage system – about two-thirds of its assets; that it sell to competitors large amounts of gas for which it had already concluded supply contracts; and that it introduce competition into its core household supply business.

It is on the basis of this report that British Gas is now reluctantly negotiating with the OFT. Sir Gordon Borrie, director-general of fair trading, would like British Gas's pipeline interests to be sold in the open market to make a clear separation of ownership; he has, however, conceded that the company could be allowed to hive off its pipeline interests to a separate subsidiary, so long as it complies with all the OFT's other recommendations. Otherwise, a monopolies investigation looms.

It is unclear where all this will leave shareholders, who ought to be prepared to accept a reasonable level of regulatory risk in buying into an otherwise "safe" utility. If shareholders end up owning a stake in a pipeline company as well as British Gas, they could be better off. Nonetheless, the uncertainty is unsettling.

What is striking about the current dispute is the way it has caught British Gas on the hop. When the OFT report came out, the company was clearly astonished at the extent of its recommendations. It has made no detailed comment since. At yesterday's press conference Mr Evans said: "The OFT report suggests many fundamental changes, and I do not believe proper consideration has been given to the consequences."

The company has been slow to grasp the initiative in this debate, as with many other regulatory issues. To take another example, the company's relationship with Ofgas might best be described as combative. Mr James McKinnon, director-general of gas supply, complains of British Gas's almost instinctive resistance to his suggestions for change, which often means he has to impose reforms rather than negotiate them. Although other privatised utilities have had disputes with their regulators, none has had as continuous or acrimonious a battle as has British Gas.

Earlier this year, Mr McKinnon was forced to threaten British Gas with court action before it produced vital information for his tariff review of domestic prices. Now he has imposed his tough new pricing regime. "You'd think they would want to take the initiative with some of the changes I suggest," he says. "But it's only after a war of attrition that we manage to persuade them to embrace change."

British Gas's regulatory difficulties have affected its image in the City. Its share price reached a five-year peak only days before publication of the OFT report, after which it fell 10 per cent – although it has in recent days been climbing again, thanks in part to justified expectations that the dividend would continue to rise.

The City still regards British Gas as a healthy profits machine. But for the long term, some institutional shareholders are expressing concern that the company's management does not have either the vision or the judgment to steer it through the current political minefield.

It may be that British Gas failed to anticipate the zeal with which the government is now pursuing competition in the gas market. But it is also possible that the company is gambling that it will be able to ride the storm. Mr Peter Walker – who as energy secretary oversaw British Gas's privatisation as a single entity – is in a position to offer political advice as a non-executive director of the company. And British Gas may be calculating that, come the general election next spring, a Labour victory would change the ground rules beyond recognition.

Whichever party wins, one factor will not alter: British Gas's need to expand overseas. In recent years it has been trying to build up an overseas exploration, production and distribution network, and Mr Evans has set ambitious targets: he wants the exploration and production division to account for 40 per cent of British Gas's profits by the end of the decade, compared with just 15 per cent at present. He also aims for Global Gas, the overseas gas distribution and transmission unit, to increase its share of profits from a current 3 per cent to 20 per cent.

But while accepting that the company needs to expand overseas, many observers are critical of the way it has sought to do so. "It is undoubtedly a sensible policy to expand overseas, but they have not been selective enough in the way they've done it," said Mr Peter Nicol, analyst at Warburg Securities.

In New Zealand three years ago, British Gas failed to take over the gas utility Petrocorp when its bid aroused nationalistic opposition; in Canada the supply company it took over 18 months ago, Consumers Gas, has run into regulatory concern, and it is now being forced to float 15 per cent to comply with government demands for a local minority ownership; in Spain it has just sold its 10 per cent stake in Catalana de Gas, the country's biggest distribution company.

"British Gas was probably afflicted with too much cash for acquisitions, and there was a need to put some discipline into organising its strategy," says Mr Howard Dalton, the retired Amoco executive Mr Evans brought in to give some direction to British Gas's overseas expansion.

Mr Dalton speaks as an outsider, and although the closest thing to new blood at a senior level in British Gas, he does not have a position on the board. There is widespread criticism in the City of what is seen as the company's "in-bred" corporate culture. "Institutions would like to see someone else – an outsider – coming in at a senior level," says Mr Ian Graham, analyst with County NatWest in Edinburgh.

In part this culture is the legacy of the company's near-legendary former chairman, Sir Dennis Rooke, who preached with almost missionary zeal about the logistics of gas supply, saw the company intact into the private sector and retired in 1989. His successor, Mr Evans, is a quietly-spoken, understated man who has been at the company for 41 years. He is surrounded by four like-minded and similarly self-effacing executive directors. Mr Cedric Brown, managing director of gas business, who is being groomed as crown prince to the 64-year-old Mr Evans, came up through the regions.

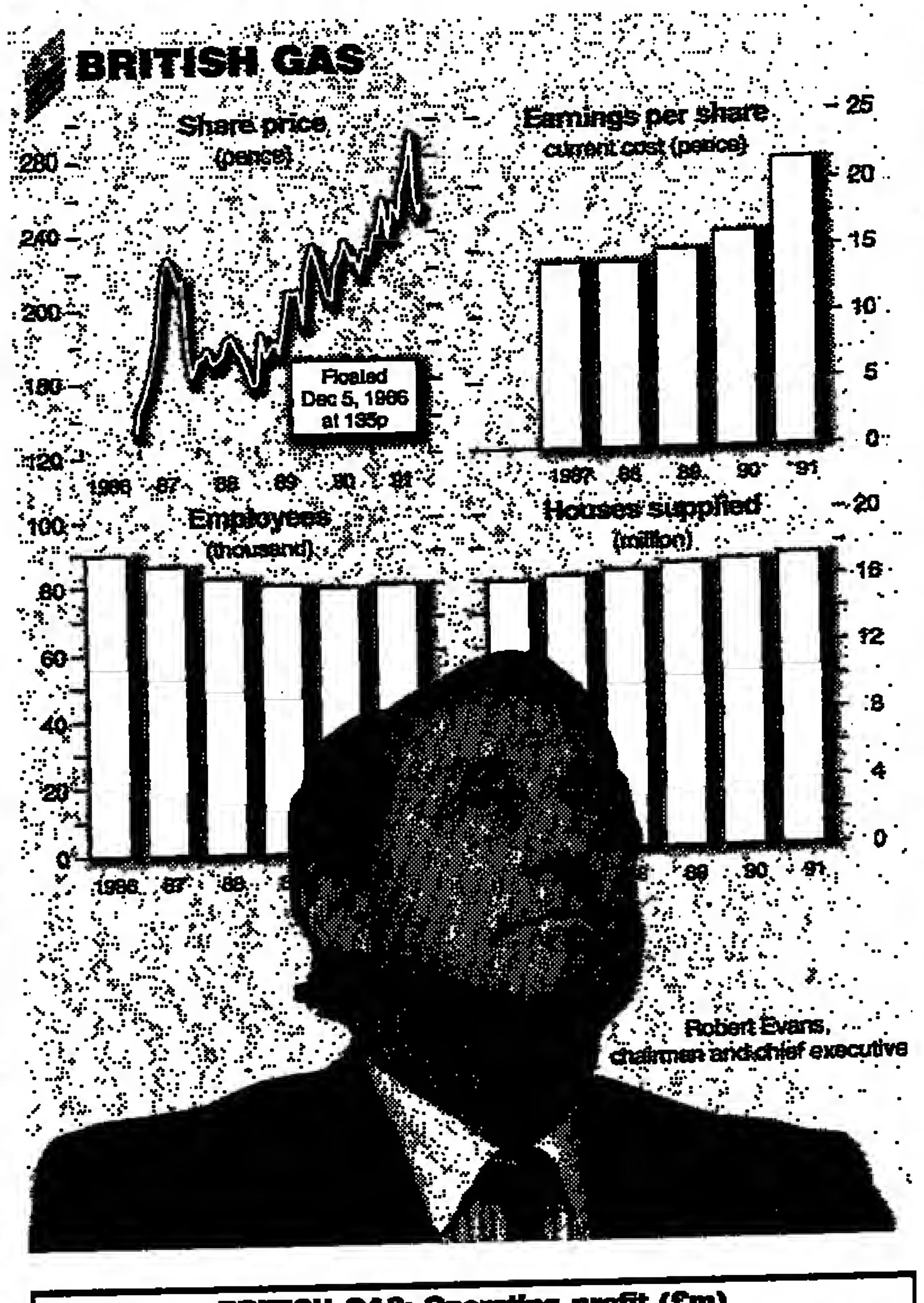
Mr Evans is aware of the need to decentralise decision-making. But despite a move last year to create 9 district representatives to bring the company closer to its customers, decisions on pay, prices and investment are still taken centrally.

"Quite a lot of management time is devoted to ensuring that things are done in the way they always have been," said one former British Gas manager. "The board is not receptive to ideas from below."

Mr McKinnon of Ofgas agrees that the company is crying out for new executive blood: "A change in corporate culture really needs personnel changes at the top. You can't expect people who have always conformed to specific roles to suddenly change themselves."

This ingrained culture makes the company's directors inward-looking and deeply resistant to external interference. "The directors are steeped in the old state monopoly mentality and a legacy from Sir Dennis Rooke of belligerence towards government," said a former British Gas manager.

For the moment British Gas's UK business remains a strong cash generator. But unless it establishes a sense of direction, it could risk losing out at home before it has grown overseas sufficiently to compensate. "Bob Evans is concerned about the cooker going out in Bootle," said one consultant who knows him well, "but he is running a multi-million pound global resources company of which Bootle is an important but very small part."




Robert Evans, chairman and chief executive

**BRITISH GAS: Operating profit (£m)**

| | Mar 89 12 mths actual | Mar 90 12 mths actual | Mar 91 12 mths actual | Dec 91 9 mths est | Dec 92 12 mths est | Dec 93 12 mths est |
|---|---|---|---|---|---|---|
| Gas supply | 1,290 | 1,110 | 1,525 | 900 | 1,723 | 1,788 |
| Global Gas | | | 68 | 70 | 140 | 147 |
| Installations | 47 | 49 | 48 | 35 | 50 | 53 |
| Appliance trading | 30 | 26 | 26 | 16 | 30 | 30 |
| Exploration & prod | 48 | 166 | 307 | 230 | 405 | 445 |
| Other | 11 | 19 | 15 | 13 | 19 | 20 |
| TOTAL | 1,426 | 1,370 | 1,989 | 1,264 | 2,367 | 2,481 |

Source: County NatWest

# OBSERVER

## Air on the purse strings

■ Any visitor to the UK Treasury who hears mention there of the "pathetic trio", should beware of leaping to conclusions. The phrase does not refer to Chancellor Norman Lamont and his two most senior ministers, David Mellor and Francis Maude.

It is simply the name of a piece of music – in its proper spelling, the Pathetique trio, by Glinka. The little known work is currently the top candidate for in-house performance at the ritual gathering of Treasury eminences in January, to discuss the budget.

If the Glinka is played, the rendering will be led by its proposer, bassoonist Bill Robinson who doubles as a special adviser to Lamont. The clarinettist will be Alastair Ross Goobey, a financial-markets adviser, with monetary-policy guru Michael Scholar tickling the ivories.

The proposed programme may well be revised, however, before the weekend meeting takes place. For one thing, the Pathetique may be too gloomy to suit the mood the government hopes will then prevail. For another, a mere trio would leave important Treasury musical resources unemployed.

They include Sir Terry Burns, recorder-player and permanent secretary; chief economic adviser Alan Budd who, like Ross Goobey, is hot stuff on the liquorice stick; and second permanent secretary Warbling Nick Monck, whose vocal repertoire reputedly runs the full gamut from *Pennies from Heaven* to *Buddy, can you spare a dime.*

## Shift of fashion

■ Bluff Barclays banker Neil Harland may not see himself as a bellwether of UK corporate finance, but Observer can see wider significance in his latest move.

As head of Barclays Syndications, Harland spent the late 1980s arranging syndicated credits, multiple option facilities and other rococo financings for UK companies. Indeed, under his guidance Barclays built a reputation as the top UK syndicated loans team, seeing off lesser rivals such as NatWest.

But corporate treasurers are a fickle bunch and complex syndicated credits are now distinctly out of fashion. Relationship Banking is the buzz-phrase once again.

Not one to be out of the action for long, Harland is now off to become director of Barclays' corporate banking division where he will build relationships with some of the bank's biggest corporate customers – including those companies now anxious to replace syndicated credits with cosy bilateral arrangements.

## In a word

■ Margaret Thatcher's forceful intervention in the Commons debate on Europe was described in yesterday's front-page picture caption in The Times as a "Bavura performance".

Our Italian dictionary has no entry for "bavura", although it might be related to "sbavare", which means "slobber". On the other hand it could be a cisalpine cousin of the French word "bavure", signifying "botch-up".

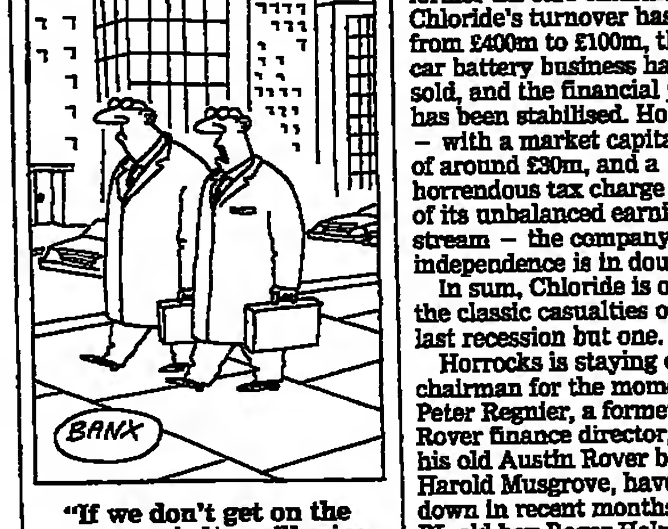
## Hindicap

■ The six-page leaflet supposedly rendering the Patient's Charter accessible to the man on the Clapham omnibus is being distributed to households throughout Britain this week. It makes an important concession to a multi-racial society in that the order form promises translations of the full document into Bengali, Gujarati, Hindi, Urdu, Punjabi, Chinese, Greek and so on.

But is that enough?

Faced with the awkward fact that what a patient's charter actually boils down to may be still more obscure in Hindi and the like than it is in English, the department of health has simply transliterated the title.

People who do not understand English are unlikely to find much sense in the two alien words even though they are written in a familiar script.




"If we don't get on the conveyor belt, we'll miss the train"

## Wind-up

■ The British Leyland old boys' club at Chloride is finally being disbanded. The famous battery-maker, which launched Sir Michael Edwardes' business career, has reshuffled its top management team yet again with Keith Hodgkinson, an unknown quantity from GEC, being hired as chief executive.

The net result is that it will be virtually impossible to blame Sir Michael, or his gaggle of former car-makers, for what happens to Chloride from now on.

Under Ray Horrocks, a former BL cars chairman, Chloride's turnover has shrunk from £400m to £100m, the UK car battery business has been sold, and the financial position has been stabilised. However – with a market capitalisation of around £30m, and a horrendous tax charge because of its unbalanced earnings' stream – the company's future independence is in doubt.

In sum, Chloride is one of the classic casualties of the last recession but one.

Horrocks is staying on as chairman for the moment, but Peter Regnier, a former Austin Rover finance director, and his old Austin Rover boss Harold Musgrove, have stepped down in recent months. Fellow BL old boy Roger Holmes stays on the board, but having been passed over for the chief executive's job, he may also be tempted to move on.

Next month's centenary celebration of the Chloride Electrical Storage Syndicate promises to be a rather sombre occasion – even if for no other reason than that the group has lost touch with its Manchester birthplace. Well over 90 per cent of its workforce are now overseas.

## One off

■ Seated beside a very senior officer at an army guest night, the young subaltern tried to open conversation with: "Do you ride, Sir?"

"No. Tried it once. Didn't like it," was the only reply.

A bit later, the youngster had another go with: "Ever go to the opera, Sir?"

"No. Tried it once. Didn't like it," the great man snapped again. Then, feeling he wasn't being sociable enough, he added: "You look about the same age as my son."

"Your only son, Sir?", the subaltern said.

# The dream that fell to earth

## Collaboration, not autonomy, is the way of the future for space science, writes Clive Cookson

The French-inspired dream of European "autonomy" in manned space flight – an independent European rocket, space plane and orbiting space station – came crashing back to earth in Munich this week.

The ministerial council of the European Space Agency decided, under irresistible pressure from Germany, that the grandiose plans hatched at its last meeting four years ago were no longer financially sustainable. ESA's catchphrase switched from autonomy to "worldwide co-operation".

What the change of emphasis means in practice is that the two flagship programmes – the Hermes space plane and Columbus, Europe's contribution to the US-led international space station Freedom – will not go into the final development and production phase this year, as originally envisaged. But preparatory work will continue during 1992, on a slightly reduced budget, while ESA reviews the projects in an effort to cut costs and bring in new partners.

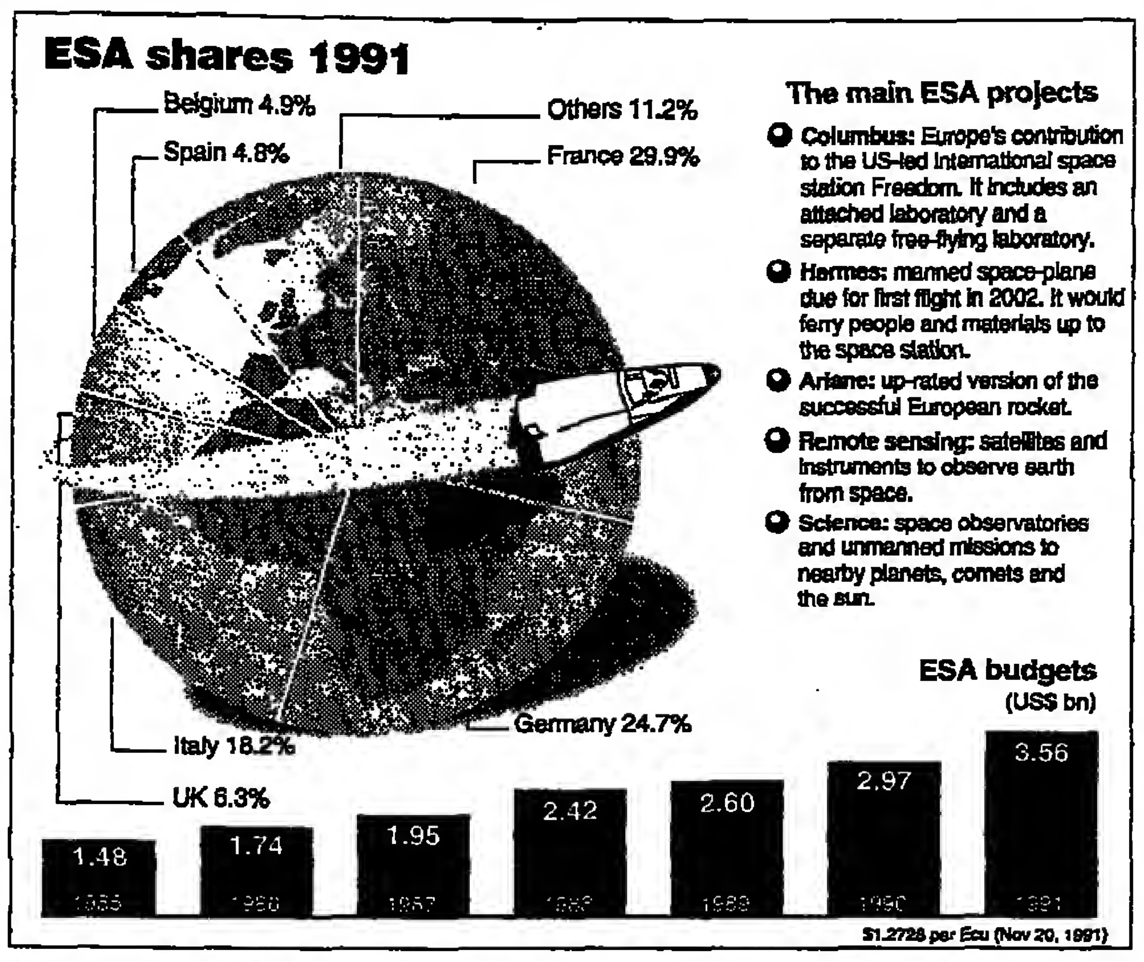
Two potential partners were mentioned at Munich: the Soviet Union and Japan. Their circumstances could not be more different.

The vast Soviet space programme – with far more launches to its credit than the US and a reliability record to match that of Nasa – is in danger of collapsing as the Soviet Union suffers economic and political disintegration. It desperately needs western financial help and obviously is in no position to bail out western Europe. But ESA might be able to cut its development costs by buying in Soviet technology or even hardware.

For example Buran, the Soviet space shuttle which has been grounded since its test flight in 1988 for lack of funds, could help the Hermes project. And Mir, the Soviet manned space station, is potentially useful for Columbus.

If the Soviet Union has vast experience and no money, the fast-growing Japanese space programme has relatively little experience, reasonable funding ($1.1bn in 1991) and great ambitions. Japan is developing an unmanned equivalent of Hermes, an automatic space plane called Hope, and an equivalent of Columbus, a manned module called Jem to attach to the space station Freedom.

Nasda, the Japanese space agency, has set up a European office in Paris to liaise with ESA. But so far Nasda-ESA co-operation has been on a small scale – regular annual meetings, exchanges of space scientists and engineers between Europe and Japan, and exchanges of data from earth-observation satellites.




"We would like to follow an autonomous path but we might have some financial problems, and in that case there is some possibility of seeking international co-operation," said a cautious Mr Yoshikazu Shoji, deputy director of Nasda's Paris office, who was an observer at the ESA meeting.

Mr Shoji says the space programme is not as popular politically in Japan as it is in France. "There are no strong politicians in Japan, like Mr Paul Quiles [space minister] and Mr Henri Curien [science minister] in France, who are fighting for space programmes."

Nasda's lack of political clout in Tokyo is already giving it problems in achieving what it regards as an adequate increase in its 1992 budget. It is likely to emerge with only a 5 per cent increase in real terms – perhaps small enough to make Japanese space officials willing to compromise on "autonomy" and consider serious co-operation with Europe on their flagship programmes.

Even so, Japan's rise as a space power contrasts strikingly with Britain's decline. When ESA was formed in the mid-1970s the UK contributed about 25 per cent of its budget and, although France took the lead in developing the successful Ariane rocket, the UK was regarded as an industrial and political leader of the European space effort.

This year's UK contribution to ESA is about £100m – just 6 per cent of the agency's budget. (The UK government spends £150m a year on space, including ESA and other programmes.) If Britain contributed to ESA in proportion to its gross national product, it would be meeting 14 per cent of the agency's expenditure.

Britain withdrew to the sidelines of European space policy at the 1987 ESA meeting in the Hague. Mr Kenneth Clarke, then industry minister responsible for UK space policy, refused to have anything to do with the agency's manned space programmes – which he described as "an expensive frolic to be paid for largely by the French, German and Italian taxpayer". Unfortunately, Mr Clarke's combative manner so offended his 12 European colleagues that they took no notice of his warning about letting ESA grow out of control.

The UK delegation was virtually invisible in Munich this week, trying hard to avoid saying "I told you so". Its low-key leader, Lord Reay, emerged at the end to tell journalists: "A crisis may have been put off for another year on the manned space programme." He was "very pleased" by his predecessor's decision in 1987 to stay out of it.

Lord Reay was pleased too that the only new project launched in Munich – the Polar Orbiting Earth-observation Mission (Poem) – is an environmental monitoring programme which fits well with the UK's "utilitarian" space policy. Poem will develop instruments and ground-support systems for the UK-led Polar Platform due for launch in 1998.

Even inside ESA there is a widespread feeling that the agency has lost some of its edge since the period in the mid-1980s when the current expansion plans were laid – and when the European space science effort basked in the glory of the successful Giotto mission to the nucleus of Halley's comet. Some ESA employees speak privately about the agency's growing bureaucracy, loose management and disenchanted staff.

And the ministers in Munich this week felt that they had made a mistake allowing four years to pass since the Hague meeting – a period that allowed the costs of Hermes and Columbus to escalate out of control. So they resolved to tighten the political grip on ESA by holding annual ministerial meetings in future.

European space contractors fear, however, that annual ESA meetings could lead in due course to annual budgets, with a loss of the confidence that multi-year budgets give to the scientists and engineers working on long-term space projects. Some dislike the prospect of having to imitate their US counterparts, who have to lobby Congress every year on Nasa's behalf during Washington's budget-setting process.

Mr Jean-Marie Luton, ESA director-general, assured the industry in Munich that it would continue to have long-term contracts and budgets, though he remarked that Nasa managed to put a man on the moon with annual budgets.

Of course that was at a time when space enjoyed immense political popularity in Washington. Today, a relatively demoralised Nasa has to fight hard for its budget. The space industry only just headed off a move in Congress this year to cut off funding for the Freedom space station, which is suffering from serious technical problems and cost over-runs. The project's total cost is now estimated at $30bn-$40bn.

With space losing political support round the world, international collaboration will be inevitable if the visionaries of the aerospace industry are to achieve any of their long-term aims, such as bases on the moon, manned expeditions to Mars and orbiting space colonies. In that context, talk of European, Japanese or even American autonomy in space seems absurd.

## Joe Rogaly

# A fading star

Mrs Margaret Thatcher is the least of the government's troubles. The failure of the recession to recede is what has them quaking.

This is not to say that the former prime minister is no trouble. She will perform whatever political somersault is necessary to make her case. She does have a purpose: to save Britain from what she believes would be the awful fate of accepting a single European currency. But she is gradually devaluing her own currency. She did so again in the House of Commons on Wednesday.

She was responding to an excellent speech by Mr John Major, perhaps the best he has made since he succeeded her. In it, the prime minister referred more than once to the Single European Act, which Mrs Thatcher had negotiated, signed and promoted. Like the Treaty of Rome, the Act commits members of the EC to a "European union". It increases the powers of the Strasbourg Parliament, extends majority voting, and widens Community competence. Further developments along the same lines are likely to be agreed at Maastricht.

Yet as Mr Major's speech made clear, no treaty on political union will be signed by Britain unless the EC is left in its present shape. That is, it will continue to function as an arrangement between governments, a congeries of states that constantly renegotiates treaties, understandings and agreements. There may be some erosion of this structure, but that is all. This is not yet a federation, or even an embryonic one. That is why Mr Jacques Delors expressed disappointment in his speech on Wednesday.

Mrs Thatcher is blind to this. She invited the House to regard the Single European Act – her Act – as an awful warning, an example of what not to do next time. Majority voting, it appears, is different from what it had been when she was in charge. Its sole purpose had been to complete the single market by 1992. She used the same distorting mirror on the exchange rate mechanism, which Britain had joined under her prime ministership. That was acceptable with a 6 per cent band and the possibility of devaluation. There was no need to go any further.

Her most spectacular flip-flop came in her call for a referendum on British adherence to a single currency. When in office she wielded greater personal power than any other EC head of government, possibly excluding President Mitterrand. She did not hesitate to use the prerogative of patronage, with not a word about asking the permission of parliament, let alone the electorate. Her decisions – sometimes her whims – were imposed on cowering ministers. When the fine print had to go before parliament the Tories usually rubber-stamped it.

### Even Mr Major is becoming confident about contradicting Mrs Thatcher

Yet in all her years the Conservative party never represented more than a third of those entitled to vote. (Take, for example, 1987. Total electorate: 43.2m. Conservative vote: 13.8m. Conservative share: 31.9 per cent.) Mrs Thatcher used that undemocratic power to lay waste to local government, without so much as a whiff of a referendum. There may be a case for a plebiscite on the EC. Until I see an apposite question I shall remain neutral. But the former prime minister's call was humbug born of desperation. Anyone can pick up passing trade by mouthing slogans about asking the people. She never bothered to ask them when she had the chance.

The media have puffed her up this week, but she looks like a slowly fading star. She is still living on her reputation for theatricals. She is a good political performer, better than anyone else on the stage, but that is a wasting asset. Even Mr Major is becoming confident about contradicting her. On Wednesday night his office's simple acknowledgement that a future government could call a referendum was wilfully misunderstood by some of the media and jumped on by the Labour party as a wobble. Yesterday afternoon the prime minister clearly stated his opposition to a referendum, either now or later. I regard his resistance to constitutional change, even for Scotland, as an unfortunate blind spot but at least he, unlike her, is consistent.

None of this will matter unless economic activity picks up soon. This is the real worry for the Conservatives. Recovery cannot be a matter of economic statistics. It must be believed in, and felt. Mori pollsters ask every month whether people believe that the economy will improve or get worse over the ensuing year. In September the balance of replies was +13 per cent. In October it was down to +5 per cent. NOP asks a slightly different question, about how individuals think their own households will fare over the next 12 months. The balance between "better" and "worse" fell from +6 per cent in September to +1 per cent last month. If there are further falls the polls showing voting intentions will indicate large Labour leads.

There was a time when Conservatives could take comfort from Mr Michael Heseltine. He it was, you may recall, who argued that the British government could rely on President George Bush. Mr Bush has an election to fight next year, so he would make certain that the US economic cycle suited that purpose. As growth was resumed, its beneficial effects would travel eastwards across the Atlantic to imbue the British with confidence and thus rescue the Conservatives. Clearly Mr Bush has not been reading Mr Heseltine's script – or, if he has, he does not know what to do about it.

On this side of the water bottoming-out is taking an awfully long time. The pressures on interest rates in Germany, France and therefore ultimately Britain are all upwards. So there is now a distinct possibility that the Tories could lose their majority next year. Judged against such portents of disaster, one more outburst from Mrs Thatcher on the anniversary of her downfall must seem like a mere irritant.

# *LETTERS*

## Terms are clear on sovereignty

*From Mr Giles Keating.*

Sir, There is a growing debate over the loss of sovereignty in the area of budgetary policy caused by the UK's signature of the Emu Treaty. It is therefore important to examine the exact terms of the draft.

Under clause 104B-1, signatories agree to "avoid excessive government deficits". No quantitative definition of excessive appears to apply to this paragraph, which seems to be no more than a general declaration of intent to impose fiscal self-discipline.

Under clauses 104B-2 to 104B-8 and the related protocol, quantitative limits are established. Signatories agree that, if they violate them, they will submit to a procedure which could result in the EC Council making and ultimately publishing recommendations for reduction of government debt and deficits. The procedure is a political, not a mechanical process, and would not be initiated if the debt ratio, though excessive, is "sufficiently diminishing". But, most important, there is nothing binding about the recommendations that emerge from the Council.

The UK's submitting to this procedure appears no different from its long-standing membership of the OECD and IMF. Both bodies can make recommendations about their members' budgetary policy. Such recommendations are not generally regarded as impinging on sovereignty, although of course they might have a powerful effect on market valuations of UK debt, and thus indirectly influence policy.

Finally, clauses 104B-9 and 104B-10 do establish a set of punitive sanctions on signatories that fail to follow the Council's recommendations; but these two clauses apply only in the third stage of Emu to those countries without an exemption or derogation. They would not apply if the UK chose to exercise the opt-out clause, and so the UK does not commit to them merely by signing the Treaty.

Giles Keating,
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*London W1*

**Fax service**
LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

## Rao not using victory to encourage foreign investment into India

*From Sir Eldon Griffiths MP.*

Sir, Election victories in working democracies are generally expected to make the winners bolder. Not so, it seems, in India.

Your report ("Delhi to retain control of public sector industry", November 19) on Narasimha Rao's depressing speech to the World Economic Forum in Delhi makes it clear that, despite his landslide victory in last Friday's by-election, the new Indian prime minister is back-pedalling on his promises to "restructure. . .privatise. . .and reduce the overmanning" of India's bloated public-sector industries. This is depressing news, hardly calculated to attract the overseas investment that India so desperately needs at a time of accelerating foreign debt and domestic inflation.

Overseas Indians attracted by Delhi's invitations to invest their savings in the country of their birth were disillusioned in the 1980s when Mr Rao's predecessor, Rajiv Gandhi, began his prime ministership with the promise of a "new era" of reform and liberalisation – only to end it up to his ears in the same (only worse) old stench of bureaucracy and corruption that all too often had characterised India's public life. Narasimha Rao's new beginning had started to heal the wounds. Yet here we go again: only months into his prime ministership, he warns that the long overdue perestroika that the Indian economy (and government) so badly needs, once again is to be put back lest it upset the same trade unions and bureaucrats who have so large a stake in keeping India's basic industries, its transport and public utilities, in the hands of yesterday's men.

India has all the resources – raw materials, skilled labour, technology – that are needed to generate the same sort of industrial "miracle" that its south-east Asian neighbours already are achieving. What is holding this giant country back is political pusillanimity.

Eldon Griffiths,
*House of Commons*
*London SW1A 0AA*

## Effects of Japanese 'shadows'

*From Mr Mike Parr.*

Sir, Re Christopher Lorenz's article, "Japan should give locals a chance" (November 15), I worked for Sony at its Bridgend CRT Plant as the utilities engineer for several years during the 1980s and can therefore comment, at least on Sony's practices, with some authority.

Sony had a shadowing policy then and has one now. Its policy (and probably shadowing policies in general) had several effects:

● Japanese process engineers and managers were able to influence buying decisions in favour of Japanese products;
● The cost of these people was included in factory budgets as consultancy, at consultancy rates. The general effect was that profits were transferred back to Japan;
● Frustration was felt by "local" staff because of the feeling of constantly having their shoulders looked over and having to justify their actions to their shadows.

I find the suggestion by Mr Campbell of learning Japanese and working all hours God sends as risible. I worked at Sony to earn a living not as a way of life.

The differences in attitudes towards work are cultural and will not be changed by "locals" taking Japanese language lessons and having beers with "Aki" after work. If the Japanese are happy to lead a way of life that to us is insane, then good luck to them.

However, it does not follow that we should emulate them. By "us" I mean most of the "local" engineers and staff employed by Sony.

Mike Parr,
*130 Grosvenor Gardens,*
*Claughton,*
*Birkenhead*

## A breakthrough in moves on EC social policy

*From Mr Emilio Gabaglio.*

Sir, Zygmunt Tyszkiewicz's restrictive interpretation (Letters, November 11) of the agreement signed between unions and employers about the development of framework agreements on EC social policy fails to put it in true context.

Every draft of the revised treaty so far discussed at the intergovernmental conference has, in fact, supported an extension of the scope for Community action in the social field, together with wider use of qualified majority voting. This is because there is very wide agreement that the Community needs rather greater scope to develop an effective social dimension. UNICE, the European employers' body, has argued against this type of change on the grounds that the EC directives would tend to be inflexible and not appropriate to local circumstances. The social partners' agreement, which meets those objections, is thus a breakthrough.

The agreement would give the social partners a nine-month period to reach agreements on social issues. It would also open the possibility for flexibility of implementation at local level, for example through further negotiations. Of course, there could still be legislation if the social partners could not agree, but at least that point is addressed in a very substantial way.

The agreement removes the grounds for hesitancy about the extension of Community competence in the social field and the wider use of qualified majority voting. It was no surprise, therefore, that there is broad consensus among governments to welcome the agreement and to give general blessing to the new Dutch draft of the treaty which includes the extension of qualified majority voting in this area.

It is clear from this that the social partners' proposal will make the task of those who oppose the adoption of a package deal of economic, monetary *and* social measures much more difficult.

Emilio Gabaglio,
*general secretary,*
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*Rue Montagne aux Herbes Potagères 37,*
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FINANCIAL TIMES
Friday November 22 1991



Prime minister rejects Thatcher's call for referendum on European integration

# Major wins backing for EC stance

By Philip Stephens, Political Editor, in London

MR JOHN Major, the UK prime minister, won endorsement yesterday for his negotiating stance on European integration after slamming the door on a call by his predecessor, Mrs Margaret Thatcher, for a referendum on the outcome of the Maastricht summit.

But as a tense two-day House of Commons debate drew to a close last night, the divisions in the ruling Conservative party over how much ground Britain should cede at the summit were reflected in further sharp exchanges.

The opposition Labour party charged that Mr Major lacked a "mandate and an agenda" for the negotiations. Mr Gerald Kaufman, Labour's foreign affairs spokesman, said the government's stance had become "a maze in which Tory MPs wander blindly, from time to time colliding with each other".

Outlining Labour's plans for a wider and "more democratic" Europe, Mr Kaufman called for increased powers for the European Parliament and extensions of majority voting in the Council of Ministers.

Mrs Thatcher clashed publicly with another former premier, Mr Edward Heath, when she repeated her call for a referendum before Britain agreed to join moves towards a single currency.

In an exchange which underlined a deep personal as well as political antagonism between the two former prime ministers, Mr Heath tersely rebuffed Mrs Thatcher's view that the voters should have a direct say in the decision.

Opponents as well as supporters, however, of Mr Major's determination to conclude a deal with his European partners agreed that his government was guaranteed a convincing majority in last night's Commons vote on his stance.

That stance included an uncompromising rebuttal of a referendum on the Britain's future in Europe. Mr Major told the Commons: "There is no case for one and the government will not offer one."

His statement was designed to dispel completely any suggestion that Mrs Thatcher would dictate the terms of an agreement with Mr Major's European partners.

Mr Douglas Hurd, the foreign secretary, reminded Mrs Thatcher that she had fiercely opposed the referendum on Europe held by the Labour government in 1975.

Earlier Downing Street had suggested Mrs Thatcher's call for a referendum applied only to the final decision due in 1996. But her aides made it clear that she regarded the "opt-out" clause negotiated by Mr Major in the draft treaty on monetary union as too weak. If that clause was not significantly strengthened she wanted a referendum next year before legislation to implement any treaty changes.

Details, Page 8
Background, Page 2
Joe Rogaly, Page 15

# GE determined to repair relations with Rolls-Royce

By Paul Betts, Aerospace Correspondent, in London

GENERAL Electric of the US is determined to repair its damaged relations with Rolls-Royce, the UK aircraft engine manufacturer.

Mr Brian Rowe, head of GE's aero-engine division, said in Cincinnati he wanted to co-operate with Rolls-Royce.

"We've got to stop killing ourselves. We've got to co-operate on programmes when we can and the door remains open for Rolls-Royce," he said in his first interview since British Airways' controversial decision to buy GE rather than Rolls-Royce engines to power its new fleet of Boeing 777 airliners.

BA and GE are expected to complete their deal early next month. As well as supplying its new GE90 heavy thrust engines, GE has agreed to pay £272m ($481m) for BA's engine overhaul plant at Treforest in Wales.

Relations between Rolls-Royce and GE have been particularly strained since Rolls-Royce pulled out of a wide-ranging engine collaboration agreement with the US group seven years ago.

The agreement envisaged the two companies co-operating in both the medium-thrust and heavy-thrust commercial engine sectors with Rolls-Royce leading the collaboration in the medium range and GE leading the big engine programme.

The collapse of the deal not only soured relations between the two companies but became the source of considerable personal friction between their top executives.

GE's successful tender for the BA deal was regarded by many in the industry as Mr Rowe's revenge for the British company's withdrawal from the co-operation agreement.

But Mr Rowe said the animosity had been grossly exaggerated and that he bore no personal grudges.

He said the aircraft engine industry was under intense pressure because of the decline in military business and fierce competition in the commercial sector with manufacturers virtually giving engines to airlines to win deals.

"We are now having to make deals also on spare parts. That's how tough it is," he added. Engine manufacturers have traditionally drawn a large share of their revenues from spare parts sales.

Mr Rowe suggested that aircraft engine manufacturers could not continue offering huge discounts if they were to survive in the longer term. He said it was "stupid to think" that any of the four big engine makers including GE, Pratt & Whitney of the US, Rolls-Royce and Snecma of France, would disappear.

"I can't see the British giving up Rolls-Royce nor for that matter the French giving up Snecma," he said.

He suggested one solution would be for only two engines rather than three to compete on any given airframe. This could open the way to new collaboration between engine makers.

GE near accord, Page 7
McDonnell Douglas, Page 18

US defence secretary Dick Cheney (left) and his South Korean counterpart, Lee Jong Koo (centre) in Seoul yesterday. Mr Cheney said further cuts in US forces in South Korea will be postponed indefinitely. Report, Page 5

# White House wavering as Bush fails to hit home run

By Lionel Barber in Washington

LIKE a baseball team which has suddenly lost its collective nerve, the Bush administration is experiencing one of its worst losing streaks.

The signs of disarray are everywhere: the missed political openings, the unforced errors and, above all, President George Bush's own inability to connect bat with ball.

The latest swish into thin air occurred yesterday when the White House backed away from a politically explosive plan which would have overturned federal guidelines on the hiring of blacks and other minorities.

The new directive would have tightened hiring policies on the very day that Mr Bush was due to appear at a Rose Garden ceremony to sign a civil rights bill giving new protection against discrimination to women and minorities.

This was no isolated example of official reversals. Last week, Mr Bush called for lower interest rates on credit cards, prompting the Senate to pass legislation. The stock market plunged, forcing the White House to explain that Mr Bush had been misunderstood.

This week, the administration unveiled its offer of $1.25bn in loan guarantees to the Soviet Union to buy US grain and foodstuff. But in a sign of how defensive officials have become about Mr Bush's interest in foreign policy, the White House portrayed the offer not as a gesture of American leadership but as a domestic issue which would help the US farm economy.

Republican critics are accusing Mr John Sununu, White House chief of staff, of failing to give Mr Bush sound advice. Mr Sununu is also under fire for allegedly seeking to expand his duties to run Mr Bush's 1992 re-election campaign.

However, a flurry of recent news reports suggest that Mr Bush is far less reliant on his chief of staff and is turning to outsiders for political advice, mainly because of the concern about his fall in the polls.

Mr Bush has fallen into his old trap of substituting activity for reflection. In interviews and speeches
he has sought to explain how he shares ordinary people's concern about the US economy – but also why he intends to wait until early next year before refining his economic growth package.

THE LEX COLUMN

# Mercury in the ascendant

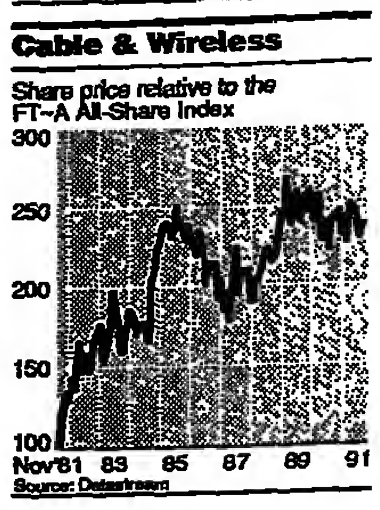
The market's valuation of Cable & Wireless has been rather curious of late. After yesterday's respectable half-year figures, the group is on course to make £700m pre-tax this year, giving a prospective multiple 20 per cent above the market average. That seems generous enough, until one considers that Vodafone is on a 60 per cent premium. The comparison has its limits: but the market clearly has doubts about C&W's growth prospects. Judging by the chart, this has been the case for a year or two.

The explanation lies mainly with C&W's Mercury operations, which have so far gobbled £1.5bn of cash, will devour at least another £1bn by 1993 and will probably not make a significant return until the investment programme is over. Investors are understandably nervous of such a huge project, particularly when the company admits that its heady expansion rate will slow a little in the second half.

But in the last six months, Mercury has increased its share of the UK business market to over 10 per cent and now accounts for nearly a fifth of outgoing international calls. In the same period, its contribution to trading profit rose by nearly 40 per cent to £68m. Far from representing a danger, Mercury has the potential to emerge as the main contributor to earnings after 1993. Barring an unlikely change in the group's strategy, investors are doubtless asking themselves when to buy C&W shares. There is, as they say, no time like the present. After all, the current price puts scarcely any value on Mercury at all.

FT-SE Index: 2,463.5 (-9.1)

Cable & Wireless




## Racal/Williams

There is a large distinction between Racal's decision to demerge Chubb and the similar exercise this summer involving Vodafone. The latter involved spinning off a quoted company with a clear market value and leaving a rump that immediately attracted a bid premium. Chubb is neither quoted nor a growth company in the style of Vodafone. There is unlikely to be much bid premium on the rag-bag of business that would be left in Racal after the demerger. It is therefore a moot point whether the demerger strategy will add sufficient shareholder value to fend off the Williams bid.

All that is clear about the value of Chubb is that Racal has received and dismissed as too low an offer of £450m. Yet this is the only cash on the table and apparently comes from a party genuinely keen to buy. It tends to confirm the market's previous calculation that a price of 60p to 65p per share could be enough to topple the present Racal management. That is not so very far above the occasional 64p value of Williams paper offer, even if it was worth only 47¾p at yesterday's close.

The question is how far an increase would be sensible for Williams, whose shares have underperformed the market by 7 per cent since the bid was launched. It has a record of improving margins at newly purchased companies and would have latitude for acquisition accounting, but its management is not well versed in electronics. The answer for Racal holders might yet be to wait for a higher Williams offer and then sell for cash.

## Arjo Wiggins

Minority investors in continental Europe have been flexing the occasional muscle of late. But while they were successful this summer in preventing a back-door takeover of the French shipping group Delmas-Vieljeux, and have recently mounted a credible challenge to the terms of Accor's bid for the Belgian travel group Wagons-Lits, they look powerless against the wily tactics of Mr Nicholas Clive-Worms.

There is little doubt that yesterday's FFr4.3bn paper offer by Saint Louis for Arjomari-Prioux represents a cheap way for the Worms family to consolidate its grip on a 39 per cent stake in the Anglo-French paper maker, Arjo Wiggins Appleton. Worms effectively controls Saint Louis, after all, and Arjomari's leading asset is the AWA stake. The true value of the offer after conversion was FFr2,130 at last night's close, a mere 4 per cent premium on Arjomari's price prior to the announcement and still a 25-30 per cent discount to Arjomari's net asset value. The Anglo-Saxon mentality would assume greater generosity; but the weakness of the Arjomari price in recent weeks – partly due to its being taken out of the CAC 40 at the end of October – suggests that the locals knew what to expect.

The knee-jerk rise in AWA's share price yesterday can be attributed as much to the market's naivete as to poor Parisian communications. Even without the prospect of a bid, though, the company has the attractions of a sound financial structure and good prospective earnings growth over the next 12 months.

## Markets

This week's fall in the UK equity market has brought the yield ratio to below two for the first time since the Gulf war. Devotees of the ratio, which consists of the long gilt yield divided by the yield on equities, will tell you that this is an infallible buy signal. The picture is clouded by ERM entry, which logically might suggest a permanent change in the gilt-equity relationship. The lower the inflation risk, the lower the premium required on gilt yields. But this is challenged by a paper from Goldman Sachs, arguing that at various times and in various markets the reverse has been the case: the lower the inflation rate, the higher the yield ratio. Thus, in France in 1975-79, inflation averaged 9.7 per cent and the yield ratio 2.1 times. In 1985-91, inflation was 3.5 per cent and the ratio 3.2 times. The effect is equally striking in Germany and other EMS countries.

In the UK, the argument gains support from the fact that over the past 20 years equity yields, despite their supposedly inflation-proof character, have moved broadly in line with inflation. There are two possible explanations. First, investors may simply put blind faith in the ratio, so that rational moves in gilts along with inflation produce irrational moves in equities. Second, inflation may actually harm equities as an investment, whether by increasing the short-term volatility of the earnings stream or by reducing the reliability of historic cost accounts. Neither argument is wholly satisfactory. Nevertheless, the behaviour of UK equities in the promised world of stable prices looks an increasingly open question.

# Bush wants Mideast peace talks in US

By Lionel Barber

THE US administration is expected to propose today that the next phase of direct talks between Israel and its Arab neighbours be held in Washington, probably within the next two weeks.

President George Bush will have talks with Mr Yitzhak Shamir, the Israeli prime minister, in an effort to resolve differences between their countries and to carry forward the Middle East peace process.

The proposed second round of bilateral talks would follow up on the Madrid peace conference, hosted by the US and Soviet Union. Israel wants the negotiations to be held in the Middle East, and the Arab nations would prefer them to remain in Europe.

One of the trickiest issues facing Mr Bush is how to deal with Israel's request for $10bn of loan guarantees for housing Soviet Jewish emigrés and Palestinian demands that Israel stop building settlements in the occupied territories.

Last September, Mr Bush successfully pressed Congress to agree to a four-month delay on the Israeli request, capitalising on a growing antipathy among Democrats and Republicans towards foreign aid.

Mr Bush also made clear that he intended to link the loan guarantees and the settlement activity which he described as an obstacle to peace. But with an election year approaching, Mr Bush may not wish to risk allowing Democrats to characterise him as being anti-Israel.

In recent weeks, the administration has hinted that it might grant part of the loan guarantees, which are to be spread over five years. Israel could then cite its own budget problems and delay building new settlements over the next 12 months.

Mr Shamir was also due to hold talks yesterday with Mr James Baker, US secretary of state. Mr Baker is likely to travel to western Europe in the first half of next month to meet foreign ministers as part of his effort to prepare the third, multilateral stage of Middle East peace talks on regional issues such as water, arms control, the environment and Palestinian refugees.

Victory for Labour, Page 4

# G7 agrees debt deal

Continued from Page 1

- maintenance of short-term credits by G7 export credit agencies, which will be asked to continue extending short-term credit lines and guarantees to banks and suppliers.
- possible emergency financing through a gold swap facility.

The measures were in response to a memorandum of understanding signed last month by the republican leaders which stipulated that they would assume joint responsibility for repayment of the foreign debt.

The Ukraine, Azerbaijan, Uzbekistan and Georgia did not give full backing to the memorandum and their positions are still uncertain.

Mr Silayev expressed hope that the Ukraine would join the accord, which he believed would free other resources to help the population through a winter of hardship and shortages of basic goods.

Mr Mulford said republics that did not take part in the memorandum, which remains open to further signatories, would suffer financially.

"We indicated to them that if they turn their backs on debt repayment, they would face a bleak future as far as attracting new credits is concerned," he said.

The communiqué called for close co-operation with the International Monetary Fund (IMF) in implementing comprehensive reforms as early as the first quarter of next year.

# US improves access for foreign airlines

By Nikki Tait in New York and Paul Betts in London

US AVIATION authorities yesterday significantly improved the access of foreign airlines to secondary cities in the US by lifting restrictions on a two-year old "Cities Programme".

The move, announced by Mr Samuel Skinner, the secretary of transportation, comes in response to petitions from more than two dozen domestic US airports which have been seeking international services.

Under the Cities Programme, introduced in January 1990, the Department of Transportation can permit foreign carriers to fly between their home country and specific US cities which under existing bilateral agreements they could not serve.

Foreign carriers which have taken advantage of the scheme include KLM Royal Dutch Airlines, with services between Amsterdam and Baltimore, Detroit and Minneapolis, and Swissair, which operates a Zurich-Philadelphia route. Germany's Lufthansa and Ladeco, the Chilean airline, have also benefitted from the scheme.

The carriers, however, must meet certain criteria to gain approval for new routes. The airports have argued that the relatively tight conditions have been responsible for the sluggish response to the scheme. In the past, for example, approval was only forthcoming if there was no other non-stop or one-stop/single-aircraft service between the relevant US city and the carrier's home country. Under the revised rules, permission can be granted provided there is no existing single-aircraft service between the same US and foreign cities.

In addition a foreign carrier will be able to offer a non-stop service in a given "city-pair" market, even if there is a one-stop, single aircraft service operating in the same market.

# Belgrade plans to resettle Serbs in occupied Croatia

Continued from Page 1

to Serbia, and move the Serbs who want to be citizens of the Third Yugoslavia out of the crisis areas," he wrote.

He added that this new "Third Yugoslavia" would include the Croatian towns of Vinkovci, Vukovar and Osijek. Urban Serbs from Rijeka, and other Croatian cities could move to Slavonia.

There were are indications yesterday that the federal army would continue its advance on other Croatian towns.

Serbian television yesterday said a column of army tanks was withdrawing from Vukovar and was heading towards the eastern Croatian city of Osijek.

Mr Arkan Raznatovic, leader of a band of Serb fighters, told Belgrade television: "After Vukovar, it's on to Osijek".

## WORLDWIDE WEATHER

| | | °C | °F |
|---|---|---|---|
| Ajaccio | F | 14 | 57 |
| Algiers | C | 15 | 59 |
| Amsterdam | C | 1 | 34 |
| Athens | S | 20 | 68 |
| Bahrain | S | 25 | 77 |
| Bangkok | F | 32 | 90 |
| Barcelona | F | 10 | 50 |
| Beirut | S | 23 | 73 |
| Belfast | R | 7 | 45 |
| Belgrade | F | 10 | 50 |
| Berlin | S | 5 | 41 |
| Biarritz | C | 6 | 43 |
| Bombay | - | - | - |
| Bordeaux | C | 6 | 43 |
| Boulogne | S | 5 | 41 |
| Brussels | S | 2 | 36 |
| Budapest | R | 8 | 46 |
| Buenos Aires | F | 23 | 73 |
| Cairo | F | 24 | 75 |
| Cape Town | S | 18 | 64 |
| Caracas | - | - | - |
| Casablanca | C | 17 | 63 |
| Chicago | S | -3 | 27 |
| Cologne | C | 4 | 39 |
| Copenhagen | S | 2 | 36 |
| Corfu | S | 20 | 68 |
| Dallas | S | 2 | 36 |
| Dublin | R | 7 | 45 |
| Dubrovnik | - | - | - |
| Edinburgh | R | 8 | 46 |
| Faro | S | 14 | 57 |
| Florence | R | 10 | 50 |
| Frankfurt | C | 5 | 41 |
| Geneva | C | 5 | 41 |
| Gibraltar | S | 15 | 59 |
| Glasgow | R | 9 | 48 |
| Helsinki | S | -1 | 30 |
| Hong Kong | - | - | - |
| Innsbruck | C | 3 | 37 |
| Inverness | R | 12 | 54 |
| Islamabad | F | 21 | 70 |
| Istanbul | S | 16 | 61 |
| Jakarta | R | 32 | 90 |
| Jersey | C | 9 | 48 |
| Johannesburg | S | 22 | 72 |
| Lima | C | 22 | 72 |
| Lisbon | S | 12 | 54 |
| London | S | 7 | 45 |
| Los Angeles | S | 12 | 54 |
| Luxembourg | C | 3 | 37 |
| Madeira | C | 18 | 64 |
| Madrid | F | 8 | 46 |
| Majorca | F | 14 | 57 |
| Malaga | S | 15 | 59 |
| Malta | S | 21 | 70 |
| Manchester | R | 3 | 37 |
| Manila | F | 31 | 88 |
| Melbourne | C | 15 | 59 |
| Mexico City | - | - | - |
| Miami | S | 24 | 75 |
| Milan | F | 9 | 48 |
| Montreal | C | 4 | 39 |
| Moscow | C | 2 | 36 |
| Munich | Dr | 1 | 34 |
| Nairobi | T | 19 | 66 |
| Naples | R | 14 | 57 |
| Nassau | C | 28 | 82 |
| New Delhi | S | 23 | 73 |
| New York | C | 18 | 64 |
| Nice | S | 14 | 57 |
| Nicosia | S | 22 | 72 |
| Oporto | S | 11 | 52 |
| Oslo | Sn | -3 | 27 |
| Paris | C | 4 | 39 |
| Peking | S | 9 | 48 |
| Prague | C | 0 | 32 |
| Reykjavik | C | 5 | 41 |
| Rhodes | S | 19 | 66 |
| Rio de Janeiro | F | 31 | 88 |
| Rome | F | 15 | 59 |
| Salzburg | Dr | 2 | 36 |
| San Francisco | S | 11 | 52 |
| Seoul | C | 11 | 52 |
| Singapore | - | - | - |
| Stockholm | F | 0 | 32 |
| Strasbourg | C | 5 | 41 |
| Sydney | F | 18 | 64 |
| Taipei | F | 26 | 79 |
| Tangier | S | 19 | 66 |
| Tel Aviv | S | 23 | 73 |
| Tenerife | C | 19 | 66 |
| Tokyo | S | 13 | 55 |
| Toronto | C | 3 | 37 |
| Tunis | F | 17 | 63 |
| Valencia | F | 13 | 55 |
| Venice | R | 19 | 66 |
| Vienna | R | 4 | 39 |
| Warsaw | C | 1 | 34 |
| Washington | C | 17 | 63 |
| Zurich | C | 3 | 37 |

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
# COMPANIES & MARKETS
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## INSIDE

### Hawker Siddeley bid in the balance

Britain's biggest takeover battle this year, the £1.5bn bid by BTR for Hawker Siddeley, ends today with the result still in the balance – in spite of earlier City predictions that the industrial conglomerate would win easily. BTR said it either owns or has received acceptances for 32.7 per cent of the struggling engineering group's shares, obliging it to pick up in excess of 17 per cent more of Hawker tomorrow through acceptances or open-market purchases. Andrew Baxter reports. Page 23

### Farmers learn to hedge


Lithuanian and Latvian farms do not have hedges but soon hedges and fences may reappear on the landscape as the newly-independent Baltic states embark on agricultural reform programmes intended to break up the old state farm monopolies and boost flagging production. Page 26

### Tough times for bankers

Japanese banks are struggling to come to terms with the mountain of debt left behind by the collapse of the 1980s property boom. The leading banks, which today report results for the six months to the end of September, face what one banker said is "the most difficult time any one of us can remember". Page 19

### Karachi stays bullish

The Karachi Stock exchange kept up its bullish surge this week, reaching a record in spite of a bearish trend on international markets. The rise has surprised market watchers. Page 38

### Chloride chairman to bow out

The chairman of Chloride Group, Mr Ray Horrocks (left), is to hand over executive responsibilities next month to Mr Keith Hodgkinson, deputy chairman of GEC's electronic metrology group. Chloride, the battery group, yesterday announced a pre-tax profit of £1.02m ($1.8m) in the six months to September 30, down from £4.39m. Page 23; Observer, Page 14

### LIG profits rise 16.4%

London International Group, the consumer products and services group, reported a 16.4 per cent increase in pre-tax profits to £20.5m ($36.3m). Page 24

### Sales of ales push Morland up

The share price of Morland & Co, the Thames Valley regional brewer, jumped 27p to close at 360p yesterday after the company announced a 16.9 per cent increase in pre-tax profits to £5.93m ($10.5m). The results were driven by growth in sales of the company's ales. Page 24

### Market Statistics



### Companies in this issue



### Chief price changes yesterday

| FRANKFURT (DM) | | | | PARIS (FFr) | | | |
|---|---|---|---|---|---|---|---|
| Rises | | | | Rises | | | |
| Continental AG | 217.5 | + | 5.5 | Cap Gemini S | 257 | + | 12 |
| Fg Kugelfischer | 227.5 | + | 10.5 | Industrielle | 3190 | + | 350 |
| Falls | | | | Falls | | | |
| Asko Pf | 763 | − | 13 | Damart | 2210 | − | 88 |
| Bilfing Berg | 931 | − | 12 | Ints de France | 844 | − | 31 |
| Lahmeyer | 805 | − | 12 | Pinault Prtemps (Au) | 859 | − | 38 |
| Porsche | 608 | − | 12 | UFB Locabail | 281 | − | 19 |
| NEW YORK ($) | | | | TOKYO (Yen) | | | |
| Rises | | | | Rises | | | |
| Coca-Cola | 68¼ | + | 1⅝ | Fuji Rebio | 1250 | + | 100 |
| Dell Computer | 22⅞ | + | 1⅞ | Kyodo Shiryo | 940 | + | 65 |
| Electronic Arts | 33½ | + | 2⅛ | Okamoto Inds | 1170 | + | 160 |
| Mci | 56⅝ | + | 1⅜ | Toyo Sansu | 1680 | + | 200 |
| Reebok | 37⅛ | + | 1 | Falls | | | |
| Falls | | | | Akasaka Diesels | 694 | − | 86 |
| Global Yield | 7⅞ | − | ⅞ | Nissan Fire | 2560 | − | 240 |

New York prices at 12:30.

| LONDON (Pence) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rises | | | | Black Arrow | 35 | − | 3 |
| Airtours | 654 | + | 26 | Fletcher King | 54 | − | 5 |
| Anglia TV | 190 | + | 11 | French Connect | 27 | − | 3 |
| Blacks Leisure | 130 | + | 13 | Gen Accident | 425 | − | 16 |
| Cable & Wire | 527 | + | 14 | Glaxo | 770 | − | 25 |
| Geerstner | 136 | + | 10 | Lap Group | 10 | − | 4 |
| Morland | 360 | + | 27 | London Intl | 286 | − | 17 |
| Psion | 130 | + | 12 | Micro Focus | 1523 | − | 100 |
| Ratners | 51 | + | 6 | Midland & Scot | 30 | − | 22 |
| Storehouse | 99 | + | 9 | Sisson Eng | 232 | − | 15 |
| Ultramar | 330 | + | 18 | T & N | 115 | − | 10 |
| Falls | | | | Trafalgar Hse | 215 | − | 7 |
| ASDA Group | 38½ | − | 2½ | | | | |

# Saint Louis seeks rest of Arjomari-Prioux

By **William Dawkins** in Paris and **Paul Abrahams** in London

SAINT LOUIS, the French sugar and paper group, yesterday made a paper offer worth FFr4.3bn ($760m) to buy the rest of Arjomari-Prioux, the paper company in which it holds a controlling 41.42 per cent stake.

If accepted, the deal would leave Saint Louis as a direct 39 per cent shareholder in Arjo Wiggins Appleton (AWA) Europe's third largest paper group.

The way the announcement was made in Paris astonished British brokers and institutional shareholders who were unable to reach AWA's management. Rumours that Saint Louis' controlling company, Worms et Cie, a family-held holding group, would make a full bid for AWA swept the market. AWA's shares rose 25p in heavy trading before closing up 5p at 259p.

French brokers said the terms offered were not generous. They represent the equivalent of around a 25 per cent discount to Arjomari-Prioux's revalued net assets but a 2.5 per cent premium on the market price.

Worms et Cie pointed out that the deal would give Arjomari-Prioux shareholders at least a 50 per cent increase in revenue.

Mr Nicholas Clive-Worms, senior managing partner of Worms et Cie, said the purpose of the deal was to remove an unnecessary layer between Saint Louis and AWA. Arjomari-Prioux was left as a shell after the formation of AWA last year by the merger of Wiggins Teape Appleton, the UK papermaker and the Arjomari-Prioux's industrial assets.

"If all Arjomari shareholders accept, Saint Louis shareholders will no longer have a company in between themselves and AWA," he said. Arjomari-Prioux investors accepting the terms of the offer would be moving out of a holding company and into a business with an industrial purpose, he added. The prospect of Saint Louis moving on to make a full bid for AWA was "out of the question", said Mr Clive-Worms.

British analysts said the move was unlikely to affect the way AWA was managed, although by tidying the ownership structure the company would be more attractive to a predator. The announcement had not come as a surprise, although its manner – there was no statement on the London stock exchange – was typically Gallic, said one analyst.

Saint Louis is offering to swap convertible bonds, yet to be issued, for all outstanding Arjomari-Prioux shares and convertible bonds. The new Saint Louis bonds would have a face value of FFr525 and carry interest of 7 per cent, convertible on the basis of three bonds for one Saint Louis share. The offer is for five of these bonds per one share in Arjomari-Prioux, or 11 for two convertible bonds.

Mr David Harrington, analyst at DLF-James Capel, said minority investors in "cascade" structures, by which a holding group exerts wide control through a descending series of minority stakes, have always run a risk of losing out. "It's an understatement to say that the offer is not particularly generous. But from Saint Louis' point of view, it's very sensible."

Lex, Page 16

# McDonnell Douglas seeks more partners

By **Martin Dickson** in New York and **Peter Wickenden** in Taipei

MCDONNELL Douglas, which this week reached a preliminary agreement to sell 40 per cent of its commercial aircraft operations to Taiwan Aerospace for $2bn, yesterday said it was still talking to seven other Asian companies about joining the deal and thinks at least one may take a 9.9 per cent stake in the business.

Meanwhile in Taiwan, members of parliament threatened to block the scheme if Mr Vincent Siew, economics minister, could not guarantee its viability.

Mr Herb Lanese, McDonnell Douglas's senior financial officer, said that the discussions involved two companies in South Korea, two in Singapore, two in Japan and one in Indonesia.

The talks are about three different levels of involvement in McDonnell Douglas's efforts to raise finance to develop the MD-12, a new long-range wide-bodied aircraft.

First, McDonnell Douglas is looking for additional equity partners and is willing to sell up to 49.9 per cent of the commercial business.

Second, it is considering risk-sharing partners who would take on the costs of developing a piece of equipment in return for a share of the aircraft's revenue stream.

Third, McDonnell Douglas is seeking Asian sub-contractors.

Mr Lanese said if several other Asian partners wanted to take a stake of between5 per cent and 10 per cent in the business, Taiwan Aerospace's equity interest might be reduced.

Precisely what parts of the MD-12 would be built in Taiwan remained subject to negotiation, but Mr Lanese estimated that 50 per cent of the aircraft might be assembled there.

Some members of the US Congress are concerned that the Taiwan Aerospace deal will mean the export of more jobs and sensitive technology to Asia.

McDonnell Douglas argues that it will not be exporting the most important parts of aerospace technology – wing design and the integration of avionics.

Mr Lanese said that McDonnell Douglas could not afford to develop the MD-12 without the Taiwan Aerospace deal and that building the aircraft would create 6,000 to 8,000 jobs in the US, and 25,000 indirect jobs.

In Taiwan, some members of parliament said they doubted that Taiwan Aerospace, which is likely to be backed by cash from state-run banks and direct government funding, will receive a fair return on its $2bn investment in the venture.

The Taiwan government is rushing to set up an ad-hoc committee to evaluate the deal before approving it, said Mr Yang Shih-jien, director of the Industrial Development Bureau, which recently set up Taiwan Aerospace.


**Simon London** explains UK insurers' search for capital

# Repairing the balance sheet

UK insurance companies are searching for ways to shore up their balance sheets following huge losses from property-related business.

Third-quarter results from Eagle Star this week and other insurers last week confirmed a picture of rising losses and deteriorating financial ratios.

According to analysts' estimates, UK insurers face combined losses of around £3bn ($5.31bn) over the next two years from mortgage indemnity insurance, which covers the possibility of default on UK home loans. UBS Phillips & Drew calculated that Royal Insurance and Sun Alliance are likely to lose £500m each. Eagle Star could lose £360m and Legal & General around £200m.

Losses on this scale are already eating into the insurers' capital – damage which will have to be repaired.

The "capital adequacy" of insurance companies is measured by a solvency ratio – the ratio of balance sheet capital to non-life premium income. During the late 1980s a solvency ratio of 60 per cent or more was normal for top-flight UK insurance companies. Today the picture is different.

For example, Royal Insurance had a solvency ratio of 55 per cent in 1989, but confirmed last week that this has fallen to 35 per cent. According to some analysts it could fall to 25 per cent by 1993 unless fresh capital is raised.

Royal is not alone. Guardian Royal Exchange has already seen its solvency ratio collapse from 82 per cent to 46 per cent. It could reach 36 per cent by the end of next year. Also by the end of 1992, Eagle Star could have a solvency ratio of 40 per cent. Other companies face similar problems as mortgage indemnity insurance losses continue to grow.

These figures are well above the legal minimum solvency ratio of 16 per cent required under UK law. However, a solvency ratio below 50 per cent is seen by investors – and insurance brokers through which the companies sell their products – as a sign of fragility.

Analysts estimate that UK insurance companies will have to raise between £1bn and £1.5bn new capital to maintain solvency margins at a comfortable level.

New capital does not necessarily mean rights issues. Most UK composite insurance companies have a quoted holding company which can raise debt finance in its own name, through a bond issue, for example, and inject the proceeds into its insurance subsidiary as equity.

Prudential recently used this method to re-capitalise Jackson National, its US insurance subsidiary. The company launched a $300m 10-year Eurobond issue, and passed on the proceeds as equity.

Some insurers have greater capacity to raise debt finance than others. GRE has a gearing ratio of just 12 per cent, against 38 per cent for Royal and 44 per cent for General Accident, for example. Hence straight bond issues could be used by some insurers to prevent further deterioration of solvency ratios – at least as a stop-gap measure until profitability improves and rights issues look better value. However, it is not clear that big institutional shareholders would be satisfied by such a move.

"Nobody will be terribly impressed by them simply shuffling debt around from holding company to subsidiary. Real equity is required, or something that looks very much like it," commented one analyst. The current state of the UK equity market may rule out rights issues.

With this in mind, insurance companies may prefer to issue subordinated debt instruments, preference shares or convertible bonds all of which can be accounted for as near-equity at the holding company level:

- Preference shares are used by many continental insurance companies and have been issued by UK banks to boost core capital resources.

One problem is that the market for *sterling* preference shares, needed to raise capital for troubled UK insurance businesses, is very limited. National Westminster Bank's £140m preference share issue in September was only the third by a UK financial institution in recent years. In addition, the insurers face stiff competition for institutional funds from building societies, which are starting to issue similar capital-raising instruments.

- Convertible capital bonds have been used by many UK companies to raise equity-style finance. The proceeds of the issue can be accounted for as equity on the balance sheet under UK accounting standards even before the bonds convert into shares.

The tax treatment of convertible bonds may be an attraction for loss-making insurers. While preference share dividend payments attract Advance Corporation Tax, interest payments on convertible capital bonds do not – in fact interest payments are tax deductible. Hence an insurer with UK earnings too low to off-set ACT may prefer convertible bonds to preference shares.

- Subordinated debt is used by many banks to boost capital, and under the proposed EC third non-life insurance directive, insurance companies will be able to do the same. The only limitations are that the subordinated bonds rank after all other creditors, have a life of more than five years, and do not count for more than 25 per cent of total capital.

In addition, subordinated bond issues could be used to diversify the company's capital base – tapping international demand for debt securities, for example.

However, whichever method of raising capital is chosen, it is clear that the capital markets are nervous of UK insurance companies. Prudential, one of the strongest of the insurers and with little exposure to the mortgage market, faced wide disagreement between underwriting firms over the pricing of its recent bond issue. The deal had a rough ride.

The issue was fully underwritten, so Prudential secured its funding and Jackson National won its equity injection. But the episode illustrates the problems which face weaker insurers hoping to tap the debt market.

In the longer term there may be no alternative but to ask investors for additional equity capital. "Insurance is a risk business, as such it should be backed by risk capital," commented Mr Youssef Zaia, analyst at UBS Phillips & Drew.

# IBM may take stake in Dassault

By **William Dawkins** in Paris

INTERNATIONAL Business Machines, the US computer group, is negotiating to take a minority stake in the computer-aided design (CAD) manufacturing and engineering division of Dassault, the French aircraft group, and merge some of its own CAD business with Dassault.

This deepens 10 years of co-operation between Dassault Systèmes and IBM, which already distributes the French company's computer-aided design, manufacturing and engineering products.

Dassault Systèmes and California-based Cadam – an IBM subsidiary – together represent the world's largest suppliers of such systems.

Cadam is the market leader in Japan, while Dassault System's product, called Catia, is the European leader.

The automotive and aerospace industries are their main customers and the partners produce similar products. They plan to make their products compatible by next year, a long-standing demand from customers, leading to a single joint design, manufacturing and engineering system.

Dassault Systèmes employs 900 people and expects turnover to rise from FFr843m last year to FFr1bn ($170m) in 1991, of which 40 per cent will go to the car industry and 30 per cent to aerospace. Cadam – which does not disclose its revenues – employs 750 people in California and makes 60 per cent of its sales to car and aerospace customers.

The French partner will take on 200 Cadam staff at a new development site in Burbank, California, near Cadam's head office.

The partners did not reveal the size of IBM's stake in Dassault System, though the US partner will receive a seat on the French company's board.

# Buoyant BBL plans to lift payout

By **David Buchan** in Brussels

BANQUE Brussels Lambert (BBL), Belgium's second largest bank, yesterday announced a 35 per cent rise in net profits to BFr4.5bn ($133m) for the year ended September 1991, and said it planned to increase its dividend.

The steep rise in profits outstripped those announced by the other main Belgian banks. However, Mr Theo Peeters, BBL's chairman, said the improved result was due to tax changes as well as to increased commercial business and higher interest rates.

BBL is raising its dividend by 3 per cent to BFr140 a share, but for the fourth year running will allow shareholders to buy new shares at a reduced price.

BBL's consolidated balance sheet rose 8 per cent to BFr2,287bn. The bank took 10 per cent more in deposits from Belgian clients, who had more to save as a result of increased wages. BBL also seems to have weathered the general slowdown in the economy which began before the Gulf war.

Business proved better with the private than with the public sector, as the Belgian state continued attempts to rein in its borrowing. However, the bank said companies borrowed more for trading than for investment while mortgage lending to individuals showed little increase.

The bank has written BFr1.9bn off the value of its investments, mainly linked to the closure of BBL-France's stockbroking subsidiary, Auboyneau-Labouret-Ollivier.

Since business in the UK was also poor, most of the bank's better performance in the past stemmed from the parent bank's operations in Belgium.

Mr Peeters stressed that while the number of Belgian branches had been virtually maintained, they had been made to work more efficiently, shedding 460 employees in the past year. A further reduction of 300 jobs was planned by 1993.

- Generale Bank, Belgium's largest bank, has signed an agreement with Belgian Famibanque to acquire its car-financing portfolio. The agreement covers a portfolio worth BFr7bn, of which BFr800m is car leasing and renting.

The portfolio represents 25 per cent of the indirect financing market for cars in Belgium and 3 per cent of the consumer credit market.

Generale Bank said the deal would strengthen its position in consumer goods financing.

# British Gas warns over OFT charging suggestion

By Deborah Hargreaves in London

BRITISH Gas could end up charging customers more for their gas depending on where they live if recommendations suggested by the Office of Fair Trading are implemented, the company warned yesterday.

"Some customers could see increases in prices," said Mr Robert Evans, British Gas chairman, yesterday. "I'm not saying this will happen, but some of the consequences of the OFT's recommendations must be thought through."

British Gas is negotiating with the OFT over sweeping changes to its business, which include hiving off its pipeline division into a separate company, selling off large amounts of its gas to rivals and the introduction of competition in its core household supply business.

Mr Evans said he hoped the negotiations would be over by Christmas – the deadline if British Gas wants to avoid a reference to the UK Monopolies and Mergers Commission.

He also questioned whether British Gas should invest in long-term supply to domestic customers when the pay-back takes 10 to 12 years, by which time it could face substantial competition in that sector of its market. The government plans to open up competition in the household supply sector by 1996.

British Gas said yesterday it makes about £40 ($70) profit per household and invests £29 of that in upgrading its system.

Mr Evans was announcing the company's half-yearly results to September 30, when British Gas increased its loss to £52m from £44m in the same period last year. It is not unusual for British Gas to make a loss over the summer period when gas demand is low and this gives little indication of full-year results.

Turnover rose by almost 20 per cent to £3.53bn. Mr Evans declared an interim dividend of 4.25 pence per share – an increase of 13 per cent. Losses per share were 3.2p, against losses of 2.2 last time. The company's shares closed up 5p at 256p in London.

He said the company plans to pay a special final dividend of 6p in February.

# Maxwell banks to meet on Monday

By Bronwen Maddox and Robert Peston in London

NATIONAL Westminster Bank will ask 30 banks with exposure to the Maxwell family's private companies to freeze loan repayments for a month, at an emergency meeting *planned for early Monday* morning.

At the meeting, Mr Kevin Maxwell, who has taken responsibility for his family's corporate affairs since the *death a fortnight ago of his* father, Robert, is also expected to explain how collateral *pledged to Swiss Bank Corporation* on a £55m loan was never delivered.

*It is understood that it has* been alleged that the security – in the form of a portfolio of *Japanese stocks and shares* – was sold even though it was mortgaged to the bankers in early *August*.

SBC was particularly surprised at the failure to deliver *the securities, since it had* been told the plan was to keep the shares until early next year - *any fall in the value of* the shares was hedged by an option on the Japanese market. *The Serious Fraud Office* is investigating the circumstances in which the assets went missing.

At the Monday meeting, which will be the first formal *gathering of banks with* Maxwell exposure, Mr Kevin Maxwell will present the family's *preliminary plans to* repay private company debts, currently estimated at £800m.

*SBC is adamant that its* loans, with deficient security, should rank above unsecured *loans in any future restructuring*.

Mr Maxwell's proposals will *be supported by a preliminary* report on the private companies' prospects by Cooper *Deloitte, the accountancy firm*. However, the banks are likely to ask Mr Maxwell to appoint *a new firm of advisers for the* family.

NatWest will work over the weekend *to anticipate questions* likely to be raised at the meeting. One banker said the *interlocking webs of debt and* assets in the Maxwell private companies was less complicated *than he had feared*.

# BT share offer discount confirmed

By Hugo Dixon in London

*SMALL INVESTORS will* pay a commission of as little as £9.50 to sell shares they buy in the government's BT share offer next month.

Mr Francis Maude, the Treasury's financial secretary, revealed the low dealing rate yesterday as he confirmed that small investors will get a discount of 15p a share on the first instalment for buying shares. They will pay 110p, compared with the 125p paid *by large investors*.

The discounts for the second and third instalments will also be 15p each if investors hold on to their shares until the instalments are due.

*Cheap dealing rates will be* available to all investors who have registered with one of *eight share shops*.

Mr Maude said that 80 per cent of the 5.25m people who *have registered an interest in the offer* have selected share shops.

The lowest commission of *£9.50 is* being offered by the Norwich & Peterborough Building Society. Other share shops are charging higher commissions which vary according to the number of shares sold or bought, and whether dealing is by post or through a bank branch. National Westminster Bank, for example, charges £9.95 for postal dealing but *£15.00 for* dealing through branches.

Investors registered with *share shops will receive* four coupons entitling them to cheap dealing facilities when *they are allocated stock*. They do not have to use these with the share shop where they *have registered, so allowing* them to take advantage of cheaper facilities offered by *rival share shops*.

Mr Maude also said that demand from institutional investors, which have started *making* indicative bids for shares, was "well in excess of our expectations". But he refused *to specify* how many shares had been bid for or at what price.

Institutional investors *are* making bids at something above the market price – 348p yesterday – to take into account the value of paying for shares in three instalments. This is calculated to be worth 20p to 25p.

Legal & General, one of the largest UK institutions, said it had made a series of indicative bids, starting with a premium of 5p over the market price. As the premium increases, it has reduced the number of shares it is bidding for.

● Salomon Brothers, which was going to be the lead manager of the BT offer in the US *before it was hit by a financial* scandal, said yesterday that the company should consider restructuring itself into separate regional and long-distance telephone companies to boost its share price. Such a restructuring would diffuse regulatory pressures and release substantial funds to develop BT's international business, it *claimed*.

Salomon's plan would involve the creation of a BT *holding company* which would then own 51 per cent of several separately quoted regional and long-distance *telephone* operators.

This would have some similarities with *the break-up of* AT&T, the US telecommunications group in 1984, although in that case the regional and long-distance companies were completely separated.

# Norwegian bank to seek capital

By Karen Fossli in Oslo

UNION BANK OF NORWAY – known domestically as Sparebanken Nor – the country's biggest savings bank, has warned that in 1992 it will need a capital injection of up to NKr1.5bn ($238m) to meet capital adequacy requirements.

In a letter to the parliament's finance committee outlining the bank's financial situation, Union said that of its total capital need, some NKr500m will have to be core capital.

The revelation is bound to heighten the crisis surrounding Norway's banks. The savings banks have already been forced to obtain support from their own guarantee fund.

"It is today not possible to raise core capital for Norwegian banks, and the market for supplementary capital has been nearly dry during the last 18 months," Union's letter said in explaining the difficulties the banks are having in raising funds to meet capital adequacy requirements.

"Possibilities to obtain capital internationally for Scandinavia has also been made difficult after both Finnish and Swedish banks have experienced problems," Union added.

Mr Geir Bergvoll, a bank executive, said that work was under way in the bank on a 12.8 per cent five-year convertible subordinated loan in the order of NKr150-250m.

After five years the loan would be converted to primary capital certificates (PCC), a hybrid share/bond instrument which can be listed on the Oslo bourse.

For the first eight months of this year, Union suffered an operating loss of NKr374.3m, compared with an operating profit of NKr156.6m for the corresponding period last year. Credit losses rose to NKr898.6m from NKr567.8m.

# Sandvik registers 30% decline

By Robert Taylor in Stockholm

SANDVIK, the Swedish *speciality steel and carbide* group, reported a 30 per cent drop in nine-month profits *(after financial items) to* SKr1.49bn ($254.7m).

Sales for the period fell 4 per cent to *SKr13.1bn while the* group order book declined 3 per cent to SKr13.28bn. Earnings per share (after tax) dropped to SKr29.50 from SKr34.70.

Sandvik *said* this year's turnover would not match last year's level and the profit for 1991 (after financial items) would fall short of SKr2bn.

Last year, the group made a *profit of SKr2.69bn*.

The company said that demand remained slack during *the third quarter*, with a slowdown spreading to Germany and Japan with no improve*ment in the* US. But there were improvements in demand in Canada and Latin America.

*Only Sandvik's process* systems product area recorded growth in the nine months, *with a rise of 18 per cent in* sales to SKr808m, although profits fell to SKr961m from *SKr1.24bn*.

The group suffered a decline both in profits and sales in core product areas. In the cemented carbide division, profits for the nine months dropped to SKr961m from SKr1.24bn and sales by 5 per cent to SKr6.82bn. Steel division profits nearly halved to SKr236m from SKr443m with a 7 per cent fall in sales to SKr4.2bn.

The acquisition of Milford corporation in the US helped to *offset* a sales decline in saws and tools, so the division recorded a 2 per cent growth to SKr1.07bn. But profits there fell from SKr69m to SKr5m.

# Sixt bid for Interhotel withdrawn

By Leslie Colitt

SIXT, the German car rental company, appeared to catch the Treuhand privatisation agency by surprise yesterday by withdrawing its DM2.5bn ($1.52bn) bid to take over east Germany's Interhotel chain.

An official of the agency said that Munich-based Sixt, the nation's second largest car rental company, was still in the running aslate as last Wednesday,according to S.G. Warburg which is handling the sale of Interhotel for the privatisation agency.

"Sixt appears to have watered down its offer," the agency official said.

The Treuhand's managing board is to meet today on the future of Interhotel and a decision is now considered likely.

Three contenders remain for the 29 hotels being sold as part of the chain: Klingbeil Group *of property* developers in Berlin; Mr Ronald Ernst, a property developer from Heidelberg *in a consortium with Dresdner* Bank; and Maritim hotels of west Germany.

*Four hotels were extracted* from the chain and are being sold separately, including the *Dom Hotel in Berlin*.

# AEG to regain control of LEW

By Leslie Colitt in Berlin

AEG, the German electricals company owned by Daimler-Benz, is to regain control, after 46 years, of the heavily loss-making east German railway producer Lokomotivbau-Elektrotechnischen Werke (LEW).

The takeover is one of the biggest deals in the state of Brandenburg, which surrounds Berlin. It will cost the Treuhand, the agency handling privatisation moves in the old east Germany, around DM300m ($182.9m).

The Treuhand agreed to assume LEWs's debts of DM185m and will pay half of the estimated DM200m in losses the company is expected to make in the next two years. Of the proceeds from the sale, DM15m will be used as the capital stock for a new company consisting of the non-rail assets of LEW which will also be taken over by AEG.

AEG has agreed to invest DM300m in the new company and to guarantee 3,100 jobs in the "medium-term." A new commercial centre and technology park is to be built on part of the LEW site with the help of AEG.

LEW's rail division manufactures electrical locomotives and commuter trains for the Berlin S-Bahn urban transport system which currently make up 60 per cent of turnover.

The Soviet Union has been the largest export market since 1949.

# Banco Espiritu share sale near

By Patrick Blum in Lisbon

*THE privatisation of Banco* Espirito Santo e Comercial de Lisboa (BESCL), Portugal's third largest bank with assets of over $9.2bn at end-1990, will be completed shortly with the sale of the state's remaining 60 per cent stake. BESCL is the first big Portuguese bank to be *fully privatised under the current* programme.

An initial 40 per cent was sold last July, with the Grupo Espirito Santo (GES) securing a 23 per cent stake. Espirito Santo is expected to regain *full control of the bank*.

The sale of 24m shares will be split into four tranches with *40 per cent of the shares on* offer reserved for existing shareholders, 15 per cent for *employees and emigrants*, and 20 per cent to be divided equally between depositors and *holders of the bank's participation* certificates.

The remaining 25 per cent will be open to all investors.

The shares will be priced nearer the time of the stock market offering.

● Petrogal, the oil group which is Portugal's largest company, is to be 51 per cent *privatised*. Petrogal, valued at around Es140bn ($1bn),had sales of Es419bn last year.

*Several groups* have indicated interest in the company, including Total of France in *association with Espirito Santo* – Sociedade de Investimentos (Essi) a company controlled by *the Espirito Santo group*; Agip of Italy with Banco Portuguese de Investimento (BPI); and *Petroleos de Venezuela*.

INTERNATIONAL COMPANIES AND FINANCE

## GE Capital may buy assets from rival group

By Martin Dickson in New York

GE Capital, the main financial services arm of the General Electric group, is considering buying some of the assets of Westinghouse Credit, the troubled finance business of its rival conglomerate Westinghouse Electric which is in the throes of a fire-sale.

Westinghouse is trying to dispose of much of its finance portfolio after taking $2.6bn of write-offs for soured loans made by the credit subsidiary during the lending boom of the late 1980s, mainly in the real estate area.

GE Capital, which has suffered remarkably few difficulties with its property portfolio and is enjoying strong profits growth, this week began examining Westinghouse's assets at the invitation of the Pittsburgh company.

Mr Gary Wendt, chairman of GE Capital, confirmed in an interview that the company was talking to Westinghouse, but he stressed: "We're interested only in performing assets."

GE might be interested in any of Westinghouse Credit's three business areas – real estate, loans to highly leveraged companies, and leasing, he said.

The leasing portfolio comprises aircraft, co-generation facilities, rail cars, marine vessels and trucking equipment.

The discussions show the sharp contrasts in the fortunes of the two companies, which both have their origins in financing equipment produced by the parent company but have grown far beyond that.

Westinghouse Credit, with about $10bn of assets, invested particularly heavily in some of the most speculative areas of the property market during the 1980s, notably hotels, motels and shopping centres.

GE Capital – with $77bn of assets it is much larger and far more diversified – adopted a conservative stance to the property market, lending only to existing buildings with an assured stream of rental income.

Its financial strength at a time of turmoil in the financial sector means that it has been able to aggressively buy assets at good prices over the past two years.

Analysts believe Westinghouse may have to make even more write-offs on its property portfolio over the next six months and, in an attempt to shore up its balance sheet, may seek to issue equity.

Nevertheless, its asset sale may have to extend beyond the financial services operations to some of its other businesses.

# Banks struggle to scale the property debt mountain

**Stefan Wagstyl finds the value of many leading lenders' collateral falling below the level of outstanding loans**

JAPANESE banks are struggling to come to terms with the mountain of debt left behind by the collapse of the 1980s property boom.

The leading banks, which today report results for the six months to the end of September, face what one senior Japanese banker says is "the most difficult time any one of us can remember".

Company bankruptcies are increasing at a relentless pace. The liabilities of groups going bankrupt in the first 10 months of this year totalled Y6,365bn ($49bn), three times the total for 1990, according to Teikoku Databank, a leading credit research agency. The figure for 1992 could be twice as high, says Teikoku.

Property agents are reporting land prices up to 30 per cent below their peaks in some parts of Tokyo and as much as 50 per cent in Osaka. Many banks are seeing the value of collateral fall below the level of outstanding loans.

The banks' main hope is that land prices will recover enough for the loans to be cleared by the sale of collateral. However, they think this could take three to five years. Borrowers are defaulting on interest payments, and some may not be able to wait that long. Meanwhile, the growth in non-performing loans could squeeze profits, eroding the banks' ability to accumulate capital with which to fund future investments and meet the standards for capital adequacy laid down by the Bank for International Settlements.

The authorities insist that the risk of a collapse of the financial system is very small. Every week, however, the number of small banks needing rescue increases. As the resources of big banks are sapped, the number of potential rescuers is dwindling fast.

Banks have kept the true scale of the potential burden hidden and will probably be able to do so for a long time. Ministry of Finance rules on the disclosure of non-performing loans are vague and flexible. Lenders are, for example, not required to stop booking interest on loans until more than a year after a borrower has stopped making payments. Write-offs usually require case-by-case approval from the Ministry of Finance.

Declared bankruptcies are a small fraction of the unknown number of troubled borrowers. The total loans of real estate and construction companies peaked early this year at about Y120,000bn, double the figure for 1986 just before the surge in prices started, according to Finance Ministry data.

The bulk was lent by big banks including the 11 city (commercial) banks, the three long-term credit banks and seven trust banks. Much of the rest came from financial companies, often bank affiliates, which recycled funds borrowed from banks into the property market. The figures underestimate the total loans made for property investment because they exclude loans made to non-property companies such as Itoman, the trading company which was taken to the verge of bankruptcy through speculative investment.

The greatest doubts surround about Y91,000bn borrowed by finance companies. Finance companies are in a particularly difficult position because they belatedly started expanding real estate lending when prices were already high.

So the value of their collateral is less likely to cover their outstanding loans. Their customers were also rarely the first-class companies which the banks kept for themselves. Teikoku Databank estimates that about Y70,000bn to Y80,000bn of finance company loans went into real estate – including loans to non-property companies – and of this about Y30,000bn to Y40,000bn could be bad or doubtful.

Not all finance companies are in the same situation. Some consumer credit companies lent almost nothing for property development. Those with the greatest exposure to real estate include bank affiliates such as Kogin Lease, which is linked to the Industrial Bank of Japan, and Nippon Lease, tied to the Long Term Credit Bank.

The exposure of banks also varies greatly. Among the big institutions, the trust banks, with a long-standing involvement in property finance, were the most aggressive in expanding real estate lending.

Lending to finance and property companies accounted for 33 per cent of their total loan portfolio at the end of March. For the long-term credit banks, the figure was almost as high at 30 per cent. The city banks, despite the widely-publicised involvement of Sumitomo Bank with Itoman, registered a relatively modest 15 per cent.

Until the financial bubble burst, bankers claimed they only lent on conservative terms to respectable borrowers. However, the lists of creditors of companies which have gone bankrupt or are in receipt of rescue finance, show that even the most elite banks willingly lent to speculators. IBJ's chairman had to resign over loans made to Ms Nui Onoue, a restaurant owner who invested in land and stocks, and went bankrupt with debts of Y430bn.

The banks' bad loan reserves are tiny in proportion to their loan assets – just 0.8 per cent on average. The tax laws do not generally allow banks to establish large tax-free reserves.

So there is no incentive to salt funds away in advance. The effective reserves are the banks' unrealised profits on securities holdings. Salomon Brothers, the US investment bank, estimates that taking these into account total reserves are a more comfortable Y30,500bn, or 10.3 per cent of loans. These reserves are dwarfed by the total of Y120,000bn borrowed by property and construction companies. If banks had to write-off even half these loans at once, the result would be mayhem.

Sales of land held as collateral would swamp the property market, forcing prices down even further, while sales of securities would undermine the equity market. Only massive intervention by the authorities would prevent banks collapsing.

Mr Tadao Chino, vice-minister of finance for international affairs, thinks this is a most unlikely outcome: "I believe Japanese banks are sound in comparison with those in some other countries. I don't think bankruptcies will have a serious effect on banks."

Mass write-offs are extremely unlikely. Even for bankrupt companies, banks are not obliged to write off loans if they feel they can eventually recover their money. Other property borrowers fall into a wide range from blue-chip companies like Mitsubishi Real Estate to companies which are defaulting on some or all of their interest payments.

So the banks' strategy is to keep creditors afloat until the property market recovers. Real estate agents say the decline in land prices varies greatly from prime areas in central Tokyo where they have dropped by less than 5 per cent from their peak to outlying districts where declines of up to 30 per cent have been seen.

In Osaka, where the increase in prices was even steeper, prices have dropped by up to 50 per cent. Some agents say cash-rich potential buyers are already sniffing for bargains.

As they wait, banks will see their non-performing loans mount, so reducing their interest income. The result will be a squeeze on bank profits which, for accounting reasons, may not become apparent until after March 1993.

Whatever the aggregate result, sharp differences are likely to emerge between banks. Those which lent aggressively in the 1980s face difficulties, not just in dealing with problem loans but in reforming management and, in some cases, improving scandal-tainted images.

They include the long-term credit banks, the trust banks and some city banks, notably Sumitomo and Fuji Bank. Banks which were criticised in the 1980s for being slow in moving into property lending now have the satisfaction of being proved right.

However, even they cannot afford to be complacent about the future lending. One Mitsubishi Bank official says: "We must learn from the past. We must be more cautious and more conservative even than we were before."

JAPANESE INTERIM RESULTS

# Slowing economy squeezes trading companies

By Emiko Terazono in Tokyo

JAPAN'S leading trading companies yesterday announced disappointing non-consolidated results for the first half to September. Sales of the companies were affected by the slowing Japanese economy, reflecting the slowdown in the movement of merchandise, especially in the raw materials and heavy industries divisions.

Most of the companies were affected by losses in stock investments. Higher interest rates also squeezed pre-tax profits.

They warned of lower sales and profit estimates for the full year because of further sluggishness in the domestic and overseas economies. Yesterday's announcements unnerved the Tokyo stock market, which declined for the seventh consecutive day.

● C.Itoh reported a 14.9 per cent fall in non-consolidated pre-tax profits on a 2.9 per cent sales decline. The company blamed the sales fall on sluggish gold trading. A rise in interest payments had cut profits. After-tax profits plunged 21.7 per cent to Y7.4bn.

Imports fell 7 per cent to Y1,049.4bn and exports rose 4.7 per cent to Y914.8bn. Transactions between foreign countries declined 13.2 per cent to Y3,274bn. Revenue from its metal division slid 14.5 per cent to Y3,010bn, of which Y2,000bn was gold trading. Chemical goods fell 1.5 per cent to Y1,677.3bn while wood and other materials were 4.4 per cent lower at Y474.9bn.

The company posted a deficit on its financial balance because of losses on its stock investments. It also sold some bank share holdings. For the full year, C.Itoh revised down its earnings projections to a 26.3 per cent fall in pre-tax profits to Y40bn on a 2.9 per cent sales fall to Y20,000bn.

● Sumitomo reported a 6 per cent rise in pre-tax profits on a marginal sales increase. It said that the fall in gold trading had affected sales, but had little effect on profits. After-tax profits rose 2.3 per cent to Y19bn.

Imports declined 11 per cent to Y1,450.4bn and exports grew 7.7 per cent to Y1,500.6bn. Revenues in Sumitomo's metal division fell 8.4 per cent to Y3,457.2bn, and food division revenues fell 3.4 per cent to Y532.2bn. The machinery division rose 11.6 per cent to Y3,056bn as exports rose.

The financial balance increased due to an 85.2 per cent rise in "other non-operating profits" because of a sale of relationship share holdings. Sumitomo also announced consolidated interim earnings. Pre-tax profits rose 10.4 per cent to Y42.3bn on a 3.4 per cent increase in sales to Y10.2bn. After-tax profits fell 3.4 per cent to Y22.2bn because of losses at its newly-acquired CATV business and its natural resources operation subsidiaries.

For the full year, Sumitomo revised down its previous non-consolidated forecast to a 5.1 per cent fall in pre-tax profits to Y73bn on a 0.5 per cent rise in sales to Y19,300bn.

● Marubeni's sales were affected by the appreciation in the yen against the dollar, and transactions, especially overseas, declined sharply. After-tax profits grew 11.8 per cent to Y11.8bn. Exports rose 1.8 per cent to Y1,205bn and imports fell to 15 per cent (Y1,285.4bn).

Revenue from its energy and chemical division fell 10.5 per cent to Y1,830.1bn and machinery and construction declined 0.6 per cent to Y2,256.8bn due to the sluggish domestic construction market.

The company posted a deficit on its balance of financial items because of a 13.5 per cent fall in non-operating profits to Y120.6bn. For the year, it expects a 17.8 per cent decline in pre-tax profits to Y45bn on a 5.2 per cent sales fall to Y18,000bn.

● Mitsui sales fell overall but pre-tax profits were increased by selling securities. After-tax profits fell 27.3 per cent to Y10.8bn because of a special loss of Y9.2bn from the liquidation of Iran Japan Petrochemical, a joint venture with the Iran government. The figure represented the difference between Mitsui's trade insurance claim and its insurance receipt.

Imports rose 2.3 per cent to Y1,556.6bn and exports increased 4.6 per cent to Y1,129.3bn. Trading between foreign countries fell 24.6 per cent to Y1,986.1bn. Overall sales declined on a fall in oil and gold trading. Revenue of the petroleum and gas division fell 22.2 per cent to Y991.5bn and the non-ferrous metals division declined 14.5 per cent to Y1,594bn.

The company's deficit in the balance on financial items grew, but a Y15.8bn income from sales of its stock holdings, mainly bank shares, helped increase pre-tax profits.

Mitsui revised down its forecasts for the year to a 9 per cent fall in pre-tax profits to Y60bn on a 6.7 per cent decline in sales to Y17,000bn.

● Mitsubishi blamed its sales decline on a fall in oil trading, but said overall profitability had increased. Pre-tax profits were affected by the deteriorating financial balance, because of losses on stock investments. After-tax profit fell 16.9 per cent to Y22.1bn. Imports fell 13.6 per cent to Y1,489.8bn and exports rose 2 per cent to Y1,302bn. Sales in all divisions fell, with revenue from its oil division falling 25 per cent to Y1,151bn and metals declining 4.9 per cent to Y2,176.1bn.

The company said that it was moving to reduce its overall assets, especially in its financial items. It had already begun to reduce its arbitrage positions between commercial paper and large time deposits. For the fiscal year to March, Mitsubishi revised down its projections to a 7 per cent rise in pre-tax profits to Y95bn on an 8 per cent fall in sales to Y16,000bn.

● Nissho Iwai's earnings were affected by heavy financial investment losses. Sales plunged on a sharp decrease of petroleum deals and machinery and construction also saw declines. After-tax profit fell 14 per cent to Y4.7bn. Reduced sales management costs led to a 39.1 per cent rise in operating profits.

Revenue at Nissho Iwai's energy sector fell 45.6 per cent to Y791.7bn and machinery and construction fell 18 per cent to Y995.9bn. Revenue of its metal division fell 4.6 per cent to Y2,527.2bn.

The company's profits were affected by increased interest payments and losses on its securities investments. There was a Y17.1bn loss on its balance on financial items. Nissho Iwai said it sold Y9.8bn in securities to improve some of its non-operating income.

Nissho Iwai expects an 18.3 per cent fall in full-year pre-tax profits to Y20bn on a 9.8 per cent sales decline to Y12,000bn.

**JAPANESE TRADING COMPANY RESULTS (First half to September 1991)**

| | Sales (Ybn) | % change | Operating profit (Ybn) | % change | Pre-tax profit (Ybn) | % change |
|---|---|---|---|---|---|---|
| C. Itoh | 10,120.8 | -2.9 | 29.3 | -6.4 | 20.2 | -14.9 |
| Sumitomo | 9,453.5 | 0.7 | 28.8 | 3.6 | 35.0 | 6.0 |
| Marubeni | 8,678.8 | -4.1 | 30.0 | 6.7 | 22.7 | -5.8 |
| Mitsui | 8,339.3 | -6.8 | 31.9 | -21.3 | 31.8 | 11.9 |
| Mitsubishi | 7,761.7 | -10.9 | 52.2 | 14.2 | 42.3 | -8.2 |
| Nissho Iwai | 5,501.5 | -16.3 | 17.4 | 39.1 | 9.5 | -12.2 |



## Okuma slides to Y7.2bn

By Steven Butler in Tokyo

OKUMA, the Japanese machine tool-maker, suffered an across-the-board decline in sales which resulted in a 22.2 per cent decline in pre-tax profits to Y7.2bn ($55.5m) in the six months to the end of September.

Sales were off 7.9 per cent to Y54.1bn.

Okuma blamed the decline on the slowdown in capital spending in Japan, the US and Europe and warned that business conditions in the second half of the fiscal year were likely to become more severe.

Net earnings fell 26.3 per cent to Y2.59bn. The interim dividend was raised to Y3.5 from Y3.25.

● Makita, the electric tool-maker, reported a 20.9 per cent rise in pre-tax profits during the first six months of the fiscal year to Y7.49bn. Sales rose 6.2 per cent to Y64.4bn and exports rose 8.4 per cent to Y40.4bn.

Operating profits fell 21.2 per cent to Y8.56bn. Makita blamed the decline on the high value of the yen, higher labour costs, and management expenses.

Net earnings were up 32.2 per cent to Y4.24bn. An interim dividend was declared at Y9, unchanged from a year ago.

## Suzuki up 3.2% to Y10.56bn

SUZUKI Motor, the Japanese car and motorcycle-maker, reported a 3.2 per cent rise in pre-tax profits to Y10.56bn ($81.38m) in the six months to the end of September – the result of a sharp decline in operating profits being offset by non-operating profits, writes Steven Butler in Tokyo.

Sales rose 2.8 per cent to Y505.1bn, but operating profits were off 21.8 per cent to Y9.6bn because of the higher value of the yen and higher costs.

Net profits rose 4.8 per cent to Y4.84bn and an interim dividend was declared at Y3.5, unchanged.

# Australian banks subdued

By Kevin Brown in Sydney

THE REPORTING season for Australia's leading banks closed yesterday with subdued, but sharply different, results from National Australia Bank (NAB) and Westpac Banking Corporation.

In line with earlier announcements from the Commonwealth Bank and Australia and New Zealand Banking Corporation (ANZ), both banks blamed recession and bad debts for a fall in profitability.

However, National Australia Bank said net profits fell only 6.1 per cent to A$730m ($567.8m), the smallest decline reported by any of the four big banks. Westpac said net profits fell 30 per cent to A$476m.

Sir Eric Neal, Westpac chairman, said the lower profit was the result of "one of the worst recessionary periods in Australia's economic history". Mr Don Argus, NAB's managing director, said the bank's result was "acceptable" in view of adverse trading conditions.

Both banks said profits had been reduced by provisions against bad and doubtful debts.

NAB charged A$955m against profits, an increase of 46 per cent, and reported an increase in non-accrual loans of 113 per cent to A$2.15bn. Westpac said the charge fell 12 per cent to A$1.05bn, but revealed a rise of 52 per cent in non-accrual loans to A$5.2bn.

NAB said Australian trading and savings bank operations made a net operating profit of A$538.5m, up 19.4 per cent. Its UK and Irish banks – which include the Clydesdale, Northern, Yorkshire and National Irish – posted a 1.1 per cent increase to A$283m.8m.

The bank said the performance of the British and Irish banks was "satisfactory" in the light of a difficult operating environment in the British Isles. The result included the first full-year contribution from Yorkshire Bank, which made a profit of A$116m.

NAB said its profits were reduced by a loss of A$72m incurred by Custom Credit, its Australian finance arm, which made a profit of A$9.6m in the previous year. The loss was caused principally by an increase in bad debts from A$82m to A$159m. The bank said the operating environment was expected to remain "difficult" because of continuing high real rates of interest, falling property values and a severe fall in farm incomes. The directors declared a final dividend of 23 cents, fully franked, making a total of 45 cents compared with 55 cents in 1989-90.

Westpac said its decline in profits was partly caused by the first loss incurred in 65 years by Australian Guarantee Corporation (AGC), its finance arm, which lost A$118m. Westpac General Finance, the bank's UK finance arm, lost a further A$102m. The bank said more than 43 per cent of its total charge for bad and doubtful dents originated from the two finance companies.

The directors announced a final dividend of 12.5 cents, fully franked, making a total of 27.5 cents, against 52.5 cents.

Bank shares closed higher on the Australian Stock Exchange last night, reflecting hopes that the economy will move into economic recovery soon.

ANZ was 34 cents higher at A$4.52, NAB 15 cents up at A$8.00, Westpac 11 cents higher at A$4.88, and Commonwealth up 12 at A$7.62.

# INTERNATIONAL CAPITAL MARKETS

## UK gilts fall sharply as sterling weakens further

**By Simon London in London and Patrick Harverson in New York**

UK government bonds fell sharply late yesterday afternoon as sterling continued to weaken on the foreign exchange markets.

The December gilt futures contract on the London International Financial Futures Exchange fell to 94.12 in after-hours trading, down from an opening level of 95.04.

The benchmark 11¾ per cent gilt maturing 2003/2007 closed down 1⅜ of a point at 112⅞ for a yield of 9.81 per cent. Sterling lost ground on the foreign exchange markets, trading down about ½ a pfennig against the D-Mark to DM2.8675 in late afternoon.

Earlier, the UK currency benefited from the decision of the German authorities not to raise official interest rates.

However, a weakening of the peseta, the strongest currency within the European exchange rate mechanism, lowered the

### GOVERNMENT BONDS

"floor" for sterling, the weakest currency, from DM2.8550 to DM2.84. The UK currency was hit by a wave of selling.

The weakness of sterling dissuaded overseas investors from entering the gilts market, increasing the nervousness ahead of next week's auction of £1.5bn 20-year stock.

■ A LARGER-than-expected rise in US initial jobless claims data pushed bond prices higher across the board in New York yesterday.

By midday, the benchmark 30-year Treasury issue was up ¾ at 101⅛, yielding 7.888 per cent. The two-year note was even firmer, up ⅛ at 101, yielding 5.430 per cent.

The news that sparked buying of Treasuries across the maturity range was the report from the Labor department of a 89,000 jump in the number of people claiming state unemployment insurance during the first week of November.

The increase was way above market expectations, and was the latest evidence of a serious deterioration in the jobs market and of continued sluggishness in the economy.

■ GERMAN government bonds drifted lower yesterday despite the decision of the Bundesbank council not to raise official interest rates.

The December government bond future on the London International Financial Futures Exchange closed at 86.17, down from an opening level of 86.24. Volume was fairly thin at 26,500 contracts.

The benchmark 8.25 per cent cash bund closed on a yield of 8.23 per cent, from 8.22 per cent on Tuesday. German markets were closed for a public holiday on Wednesday.

Analysts commented that the Bundesbank's decision to leave credit policy unchanged this month did not alter perceptions that the next movement in German interest rates was likely to be up.

Next week's cost-of-living data from the federal states is likely to confirm that inflation is accelerating. Analysts are expecting that retail prices rose at a year-on-year rate of 4 per cent during November, up from 3.5 per cent during October.

■ JAPANESE government bonds gained ground yesterday following an easing of money market interest rates and more stable conditions in other international markets.

The benchmark No 129 bond closed the Tokyo day on a yield of 5.89 per cent, after opening at 5.91 per cent. The December bond futures contract opened at 99.90 and closed at 99.99.

The Bank of Japan injected liquidity at its regular money market operations, leading to call money interest rates falling below 6.3 per cent for the first time since last week's cut in the official discount rate.

**BENCHMARK GOVERNMENT BONDS**

| | | Coupon | Red Date | Price | Change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| AUSTRALIA | | 12.000 | 11/01 | 114.1000 | +0.040 | 9.76 | 9.82 | 10.06 |
| BELGIUM | | 9.000 | 06/01 | 99.4500 | -0.050 | 9.08 | 9.02 | 9.08 |
| CANADA * | | 8.500 | 04/02 | 99.2000 | +0.050 | 8.62 | 8.49 | 8.92 |
| DENMARK | | 9.000 | 11/00 | 100.4200 | +0.050 | 8.93 | 8.84 | 8.93 |
| FRANCE | STAN | 8.500 | 11/96 | 97.8965 | -0.074 | 9.03 | 8.85 | 8.92 |
| | OAT | 9.500 | 01/01 | 104.0500 | +0.030 | 8.82 | 8.70 | 8.78 |
| GERMANY | | 8.25 | 09/01 | 100.0600 | -0.040 | 8.24 | 8.21 | 8.23 |
| ITALY | | 12.000 | 06/01 | 96.7600 | -0.070 | 12.69 | 12.44 | 12.35 |
| JAPAN | No 119 | 4.800 | 06/99 | 92.6590 | +0.169 | 6.23 | 6.18 | 6.15 |
| | No 129 | 6.400 | 03/00 | 102.7929 | +0.171 | 5.90 | 5.86 | 5.84 |
| NETHERLANDS | | 8.500 | 03/01 | 98.5800 | +0.030 | 8.72 | 8.70 | 8.75 |
| SPAIN | | 11.900 | 07/96 | 99.8300 | +0.220 | 11.89 | 11.72 | 11.53 |
| UK GILTS | | 10.000 | 11/96 | 100-22 | -5/32 | 9.82 | 9.65 | 9.85 |
| | | 10.000 | 02/01 | 101-04 | -15/32 | 9.81 | 9.63 | 9.85 |
| | | 9.000 | 10/08 | 95-05 | -17/32 | 9.58 | 9.46 | 9.63 |
| US TREASURY * | | 7.500 | 11/01 | 101-06 | +7/32 | 7.33 | 7.35 | 7.64 |
| | | 8.000 | 11/21 | 101-09 | +1/32 | 7.89 | 7.82 | 8.06 |

London closing, *denotes New York morning session. Prices: US, UK in 32nds, others in decimal. Yields: Local market standard. Technical Data/ATLAS Price Sources

## Prague approves banking reform act

**By Ariane Genillard in Prague**

CZECHOSLOVAKIA'S federal government has approved a long-awaited banking act which will alleviate fears that banking reforms are lagging behind the country's ambitious privatisation programme.

The law, aimed at establishing a modern, competitive banking sector, will be presented to the federal parliament early next month.

Under the legislation, the state will retain a 40 to 50 per cent equity stake in the country's six leading commercial banks. These banks, which include two large saving banks, were hived off from the central bank earlier this year.

Foreign investors will be allowed to buy up to 25 per cent of any bank's equity, but no one investor will be allowed to hold more than a 10 per cent share. They will not face any restrictions, however, for smaller banks.

The relatively conservative law aims to allay fears that foreign capital will dominate the sector and, in particular, worries that Czechoslovak banks could be dominated by Germany, the largest industrial investor so far in the country.

The law also sets out the legal framework for privatising the banks, which have until the end of the year to present their privatisation proposals to the government.

These are expected to include the distribution of equity to citizens in the form of vouchers, which are convertible into tradeable shares once the privatisation programme is completed.

The government is hoping privatisation of the country's large banks – to take effect by early next spring – will force

> The new law will seek to allay fears that Czechoslovak banks could be dominated by Germany

them to adopt competitive lending policies.

They do not compete with one another at the moment. Their source of finance continues to be guaranteed by the savings banks whose deposit are, in turn, protected by state guarantees.

The changes will also partly transfer responsibility for industrial restructuring from the state to the banks. The government attempted to do this earlier this year with the creation of a 50bn koruna ($1.7bn) fund which will issue bonds to the commercial banks. The bonds will be convertible into shares of debtor companies.

Banks will then use the bonds to write-off non-performing loans, and the decision as to which company can benefit from the debt-to-equity swap will lie with the banks.

Critics say 50bn koruna is insufficient to recapitalise the banks whose balance sheets are burdened with bad debts.

Mr Jan Vit, director of Czechoslovakia's state bank, said bad debts owned by enterprises to banks were estimated to be between 100bn and 200bn koruna – four times the amount issued to the banks by the government for the write-offs.

"It remains to be seen how the banks will become modern lenders acting on a commercial basis, even after they are privatised," says a local banker.

"They are totally untrained when it comes to assessing credit risk, let alone perceiving which industries should be given the benefit of a debt write-off.

"But the government is caught between the need to reform the sector as fast as possible and the danger of a rapid privatisation which leaves little changed in terms of managerial skills."

## Crédit Lyonnais in Hungarian venture

CREDIT Lyonnais of France said it was joining Hungary's leading commercial bank, Magyar Hitel Bank, in the creation of a joint banking venture, Reuter reports.

The new entity, to be called Crédit Lyonnais Bank Hungary, will have initial capital of 1.4bn forint ($25.5m). Crédit Lyonnais will provide 95 per cent of the capital.

The bank will be involved mainly in financing foreign trade and helping other joint ventures get off the ground in Hungary, but will also develop the domestic market for corporate customers.

Crédit Lyonnais has had a representative office in Budapest since January 1990.

## Credit groups call for state backing

NORWEGIAN authorities said they were assessing a plea from credit institutions for state backing due to a plunge in bond prices and general instability in the finance sector, Reuter reports.

"The authorities will give the market time to calm down," Mr Hermod Skaanland, the central bank governor, said after a meeting with the Association of Norwegian Mortgage Banks, according to the Finance Ministry.

Two market-makers said they had temporarily pulled out of market-making in domestic bank and credit institution bonds because of a volatile market.

The volatility was triggered by massive losses in the banking sector. "What we're asking for is that the authorities . . . reinforce the guarantees which have been given to the financial system in Norway," said Mr Terje Ligott, of the Association of Norwegian Mortgage Banks.

The Norwegian credit institutions sought special liquidity loans from the central bank in line with those given to the banks as well as a reinforcement of state guarantees already given to back up the ailing finance sector.

## FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:05 pm on November 21

| U.S. DOLLAR STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| ABN 9 1/8 94 | [illegible] | [illegible] | [illegible] | | 6.85 |
| ALBERTA PROVINCE 9 3/8 95 | [illegible] | [illegible] | [illegible] | | 6.90 |
| AUSTRIA 8 1/2 00 | [illegible] | [illegible] | [illegible] | -⅛ | 7.81 |
| BANK OF TOKYO 8 3/8 96 | [illegible] | [illegible] | [illegible] | -⅛ | 7.46 |
| BELGIUM 9 3/8 98 | [illegible] | [illegible] | [illegible] | -⅛ | 7.66 |
| BFCE 7 3/4 97 | [illegible] | [illegible] | [illegible] | +⅛ | 7.15 |
| BMW 8 5/8 96 | [illegible] | [illegible] | [illegible] | | 6.47 |
| BRITISH GAS 8 3/8 98 | [illegible] | [illegible] | [illegible] | +⅛ | 7.62 |
| CANADA 9 96 | 1000 | 108 | 108¼ | +⅛ | 6.76 |
| CARCO 9 1/4 96 | 650 | 104½ | 105¼ | +1⅛ | 8.05 |
| CCCE 9 1/4 95 | 300 | 107⅝ | 108 | -⅛ | 6.57 |
| COUNCIL EUROPE 8 96 | 100 | 103⅞ | 104¼ | +⅛ | 6.99 |
| CREDIT FONCIER 9 1/2 99 | 300 | 109¾ | 110 | -⅛ | 7.68 |
| DENMARK 8 1/4 94 | 150 | 104½ | 104⅞ | | 6.39 |
| DENMARK 9 1/4 95 | 1571 | 107½ | 107⅞ | -⅛ | 6.65 |
| ECSC 8 1/4 96 | 193 | 105⅛ | 105⅝ | +⅛ | 6.97 |
| EEC 8 1/4 96 | 100 | 104¼ | 104½ | -½ | 7.14 |
| EIB 7 3/4 96 | 250 | 103⅛ | 103⅝ | | 6.92 |
| EIB 9 1/4 97 | 1000 | 109⅛ | 109⅝ | +⅛ | 7.26 |
| ELEC DE FRANCE 9 98 | 200 | 107 | 107⅜ | -⅛ | 7.55 |
| EURO CRED CARD TST 9 94 | 325 | 103½ | 105¼ | -⅛ | 7.60 |
| EUROFIMA 9 1/4 96 | 100 | 107½ | 108¼ | +⅛ | 7.15 |
| EXPORT DEV CORP 9 1/2 98 | 150 | 109½ | 109⅞ | -⅛ | 7.61 |
| FINLAND 7 7/8 97 | 200 | 102⅝ | 103 | +⅛ | 7.33 |
| FINNISH EXPORT 9 3/8 95 | 200 | 108⅛ | 108⅝ | | 6.94 |
| FORD CAPITAL 9 3/4 97 | 250 | 105⅛ | 105⅝ | | 8.50 |
| GEN ELEC CAPITAL 9 3/8 96 | 300 | 107⅝ | 108⅛ | +⅛ | 7.32 |
| GMAC 9 1/8 96 | 200 | 104½ | 105 | +⅛ | 7.83 |
| GUINNESS FINANCE 8 94 | 200 | 103⅛ | 103⅝ | | 6.54 |
| IBM INTL FIN 7 3/4 94 | 200 | 103½ | 103⅞ | +⅛ | 6.12 |
| IND BK JAPAN FIN 7 7/8 97 | 200 | 101⅛ | 101⅝ | -⅛ | 7.60 |
| INTER AMER DEV 7 5/8 96 | 200 | 101⅞ | 102¼ | -⅛ | 7.17 |
| ITALY 8 1/2 94 | 1500 | 105⅛ | 105⅝ | -⅛ | 6.38 |
| JAPAN DEV BK 8 94 | 150 | 103⅝ | 104 | -⅛ | 6.36 |
| KANSAI ELEC PWR 10 96 | 350 | 108 | 108⅝ | -1⅛ | 7.74 |
| LTCB FIN 8 97 | 200 | 100⅞ | 101¼ | -⅛ | 7.78 |
| NEW ZEALAND 9 94 | 850 | 105⅛ | 106⅛ | | 6.64 |
| NIPPON CRED BK 10 3/8 95 | 150 | 108⅝ | 109⅛ | -⅛ | 7.54 |
| NIPPON TEL & TEL 9 3/8 95 | 200 | 106⅞ | 107⅛ | -½ | 6.98 |
| ONTARIO 8 1/2 01 | 400 | 102⅜ | 102⅞ | +⅛ | 8.08 |
| ONTARIO HYDRO 11 5/8 94 | 200 | 110⅛ | 110⅝ | -⅛ | 6.48 |
| OSTER KONTROLLBANK 8 1/2 01 | 200 | 103½ | 103⅞ | | 7.94 |
| PETRO-CANADA 7 1/4 96 | 200 | 100⅞ | 101⅜ | +⅛ | 7.00 |
| QUEBEC HYDRO 9 3/4 98 | 150 | 108⅞ | 109⅜ | -⅛ | 8.01 |
| QUEBEC PROV 9 98 | 200 | 105⅛ | 105⅝ | | 7.93 |
| SAINSBURY 9 1/8 96 | 150 | 106⅝ | 107⅛ | +⅛ | 7.44 |
| SAS 10 99 | 200 | 106⅛ | 107⅛ | +⅛ | 8.74 |
| SBAB 9 1/2 95 | 500 | 108 | 108⅛ | +⅛ | 6.84 |
| SNCF 9 1/2 98 | 150 | 109⅝ | 110 | | 7.99 |
| STATE BK NSW 8 1/2 96 | 200 | 104 | 104½ | +⅛ | 7.43 |
| SWEDEN 8 1/8 94 | 150 | 104⅛ | 104⅝ | +⅛ | 6.29 |
| TOKYO ELEC POWER 8 3/4 96 | 300 | 106⅛ | 106⅝ | -⅛ | 7.17 |
| TOKYO METROPOLIS 8 1/4 96 | 200 | 104⅛ | 104⅝ | -⅛ | 7.20 |
| WORLD BANK 8 3/8 99 | 1500 | 105⅛ | 105⅝ | | 7.62 |
| WORLD BANK 8 3/4 97 | 1500 | 107⅜ | 108 | | 7.06 |
| XEROX CORPN 8 3/8 96 | 100 | 102⅛ | 103⅛ | +½ | 7.79 |

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| BAPROVEN 11 1/8 95 | 200 | 102½ | 102⅞ | +⅛ | 10.29 |
| BK ECON USSR 7 96 | 750 | 69 | 69 | -⅛ | 17.76 |
| BULGARIAN TRADE BK 8 1/2 96 | 200 | 85⅛ | 85⅝ | +1⅛ | 12.70 |
| CZECH OBCHODNI BANKA 10 95 | 350 | 96½ | 96⅞ | -⅛ | 11.17 |
| DEUTSCHE FINANCE 7 1/2 95 | 1000 | 97⅜ | 97⅞ | | 8.46 |
| EIB 5 3/4 98 | 400 | 87½ | 87½ | | 8.35 |
| EIB 6 7/8 95 | 300 | 96⅛ | 96⅝ | | 7.97 |
| EUROFIMA 6 1/4 98 | 400 | 89⅛ | 89⅝ | | 8.41 |
| FIRST INTERSTATE 5 3/4 96 | 100 | 84⅛ | 84⅝ | | 10.27 |
| IND BK JAPAN FIN 5 3/8 96 | 200 | 88⅛ | 88⅝ | | 8.82 |
| IND DEV BK INDIA 6 3/8 94 | 200 | 89⅛ | 89⅝ | | 10.53 |
| LUFTHANSA INT FIN 5 7/8 98 | 500 | 86⅛ | 86⅝ | | 8.61 |
| NACIONAL FINANCIERA 11 95 | 150 | 101 | 101 | | 10.61 |
| NAT BK HUNGARY 8 96 | 200 | 91⅛ | 91⅝ | +1⅛ | 10.20 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

SWISS FRANC STRAIGHTS

| | | | | | |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

YEN STRAIGHTS

| | | | | | |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| OTHER STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| BAYERISCHE VEREINS INT 7 94 LFr | 600 | 94 | 95 | | 9.63 |
| COPENHAGEN TEL 8 5/8 96 LFr | 600 | 98 | 98¾ | | 9.21 |
| WORLD BANK 8 96 LFr | 1000 | 96¼ | 97½ | | 9.08 |
| ABN AMRO HOLDING 9 1/4 01 Fl | 750 | 102⅞ | 103 | | 8.79 |
| UNILEVER 9 00 Fl | 500 | 103⅞ | 103⅝ | | 8.46 |
| ALBERTA PROVINCE 10 5/8 96 C$ | 500 | 106 | 106¼ | | 8.84 |
| BELL CANADA 10 5/8 99 C$ | 150 | 105⅛ | 105⅝ | -½ | 9.58 |
| BRITISH COLUMBIA 10 96 C$ | 500 | 104 | 104½ | -⅛ | 8.86 |
| EIB 10 1/8 98 C$ | 130 | 105 | 106 | +⅛ | 9.03 |
| ELEC DE FRANCE 9 3/4 99 C$ | 275 | 103⅛ | 103⅝ | -⅛ | 9.16 |
| FORD CREDIT CANADA 10 94 C$ | 100 | 102⅛ | 102⅝ | -⅛ | 8.99 |
| GEN ELEC CAPITAL 10 96 C$ | 300 | 103⅞ | 104⅜ | -⅛ | 8.90 |
| KFW INT FIN 10 01 C$ | 400 | 103⅛ | 103⅝ | -⅛ | 9.44 |
| NIPPON TEL & TEL 10 1/4 94 C$ | 200 | 105 | 105½ | -⅛ | 9.32 |
| ONTARIO HYDRO 10 7/8 99 C$ | 500 | 107⅛ | 107⅝ | -⅛ | 9.46 |
| OSTER KONTROLLBANK 10 1/4 99 C$ | 150 | 105⅛ | 105⅝ | -⅛ | 9.27 |
| QUEBEC PROV 10 1/2 98 C$ | 200 | 105 | 105½ | -⅛ | 9.49 |
| BELGIUM 9 1/8 96 Ecu | 1250 | 100 | 100½ | | 9.10 |
| CREDIT LYONNAIS 9 96 Ecu | 125 | 97⅛ | 98⅜ | -⅛ | 9.76 |
| DENMARK 7 5/8 96 Ecu | 250 | 92⅛ | 93⅜ | -⅛ | 9.84 |
| EEC 7 5/8 94 Ecu | 200 | 96⅛ | 96⅝ | | 9.58 |
| EIB 10 97 Ecu | 1125 | 104 | 104½ | | 8.99 |
| FERRO DEL STAT 10 1/8 98 Ecu | 500 | 103⅛ | 104 | +⅛ | 9.28 |
| ITALY 10 3/4 00 Ecu | 1000 | 109⅛ | 109⅝ | | 9.11 |
| UNITED KINGDOM 9 1/8 01 Ecu | 2750 | 101⅛ | 101½ | | 8.89 |
| BP AMERICA 12 1/4 96 A$ | 102 | 107½ | 108 | -⅛ | 9.98 |
| COMM BK AUSTRALIA 13 3/4 99 A$ | 100 | 117⅝ | 118 | | 10.36 |
| EKSPORTFINANS 12 3/8 95 A$ | 75 | 109 | 109½ | +⅛ | 9.23 |
| EUROFIMA 14 5/8 94 A$ | 75 | 111⅛ | 111⅝ | +⅛ | 9.19 |
| MCDONALDS CANADA 15 95 A$ | 100 | 114⅛ | 114⅝ | -⅛ | 10.00 |
| NAT AUSTRALIA BANK 14 3/4 94 A$ | 150 | 110 | 110½ | | 9.51 |
| STATE BK NSW 14 1/4 99 A$ | 100 | 117⅛ | 117⅝ | | 10.86 |
| UNILEVER AUSTRALIA 12 98 A$ | 150 | 108⅛ | 108⅝ | +⅛ | 10.12 |
| VOLKSWAGEN INTL 15 94 A$ | 100 | 110⅞ | 111⅜ | | 9.71 |
| ABBEY NATL TREAS 13 3/8 95 £ | 100 | 106⅞ | 107⅛ | -⅛ | 10.76 |
| ALLIANCE & LEICS 11 3/8 97 £ | 100 | 100⅞ | 101⅜ | -⅛ | 11.11 |
| BRITISH GAS 12 3/4 95 £ | 300 | 105⅞ | 106⅛ | -⅛ | 10.47 |
| DEUTSCHE BK FIN 11 94 £ | 225 | 101⅛ | 101⅝ | -⅛ | 10.35 |
| EIB 10 97 £ | 536.5 | 99⅝ | 99⅞ | -⅛ | 10.14 |
| FINLAND 10 1/8 97 £ | 100 | 99⅞ | 100⅛ | -⅛ | 10.16 |
| INTER AMER DEV 11 3/8 95 £ | 75 | 103 | 103½ | -⅛ | 10.27 |
| ITALY 10 1/2 14 £ | 400 | 99¼ | 99¾ | +⅛ | 10.57 |
| NORWAY 10 1/2 94 £ | 200 | 100⅜ | 100⅝ | -⅛ | 10.26 |
| ONTARIO 11 1/8 01 £ | 100 | 102⅞ | 103¼ | -⅛ | 10.60 |
| SEVERN TRENT 11 1/2 99 £ | 150 | 102⅛ | 102⅝ | -⅛ | 11.02 |
| SKANDINAVISKA ENSK 13 1/8 95 £ | 100 | 105⅞ | 106½ | | 10.84 |
| TOKYO ELEC POWER 11 01 £ | 150 | 103⅛ | 103⅝ | -⅛ | 10.44 |
| WORLD BANK 11 1/4 95 £ | 100 | 102⅞ | 103⅜ | -⅛ | 10.18 |
| ABBEY NATIONAL 0 96 NZ$ | 100 | 63⅞ | 64⅞ | +⅛ | 9.64 |
| BNP 12 96 NZ$ | 50 | 109½ | 110½ | | 9.24 |
| CEPME 10 95 FFr | 2000 | 102⅛ | 102⅝ | | 9.24 |
| ELF-AQUITAINE 9 99 FFr | 600 | 99⅛ | 99⅞ | | 9.13 |
| EURATOM 7 5/8 98 FFr | 500 | 92⅛ | 93 | -⅛ | 9.23 |

| FLOATING RATE NOTES | Issued | Bid | Offer | C.cpn |
|---|---|---|---|---|
| ALLIANCE & LEICS 0.08 94 £ | 300 | 99.53 | 99.65 | 10.6425 |
| BANCO ROMA 0.03 01 | 200 | 91.54 | 92.60 | 6.4675 |
| BELGIUM 1/16 97 DM | 500 | 99.96 | 100.06 | 9.5000 |
| BFCE -0.02 96 | 350 | 99.94 | 100.08 | 6.1050 |
| BNP 05 | 300 | 95.50 | 96.25 | 5.5625 |
| BRITANNIA 1/10 96 £ | 150 | 99.10 | 99.35 | 10.6625 |
| CCCE 06 ECU | 200 | 99.95 | 100.05 | 9.7500 |
| CITIZENS FED 0.15 96 | 100 | 99.48 | 99.95 | 5.9625 |
| CREDIT FONCIER -1/16 98 | 200 | 99.92 | 100.02 | 5.3438 |
| DENMARK -1/8 96 | 1000 | 99.83 | 99.93 | 5.6875 |
| DRESDNER FINANCE 1/32 98 DM | 1000 | 99.95 | 100.04 | 9.5156 |
| ELEC DE FRANCE 1/8 99 | 400 | 100.58 | 101.04 | 6.0625 |
| FERRO DEL STAT 94 | 200 | 100.64 | 100.89 | 5.9375 |
| HALIFAX 1/10 94 £ | 200 | 99.94 | 100.05 | 10.5375 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

CONVERTIBLE BONDS

| | Issued | Cnv. price | Bid | Offer | Prem. |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

* No information available - previous day's price ‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

# INTERNATIONAL CAPITAL MARKETS

## Agency loans to eastern Europe gather pace

By Simon London

LENDING by supranational agencies to eastern Europe is gathering pace despite a shortage of viable projects to finance.

Mr Ernst-Gunther Bröder, president of the European Investment Bank (EIB), said yesterday he was confident the bank would lend Ecu1.7bn to the region by the end of 1993, the maximum allowed under a mandate by European finance ministers.

The EIB has disbursed Ecu285m to projects in Hungary, Poland and Romania since lending began last year.

In addition to project finance for telecommunications, transport and energy schemes, the EIB has agree credit lines with three local banks under its "global loans" programme.

The Inter-Europa Bank in Hungary, the Polish Development Bank and the Export Development Bank of Poland have each agreed global loans which will be passed on to small and medium-sized enterprises in those countries.

The EIB is also mandated to lend into Bulgaria and Czechoslovakia, although no projects have been approved. However, the bank is considering backing Volkswagen's planned DM9bn capital investment programme in Skoda, the Czechoslovakian car producer which its acquired earlier this year.

However, it remains unclear whether the EIB will continue lending to eastern Europe when its mandate expires in 1993. It was granted before the establishment of the European Bank for Reconstruction and Development (EBRD), which started lending this year.

Mr Bröder said the EIB had not pressed for permission to lend to eastern Europe but was happy to carry out the wishes of EC finance ministers.

The EBRD board of directors will examine six proposed loans to eastern European countries next week. The six projects are the first batch to be given full board consideration since the bank's initial four financings were agreed in September.

So far, the EBRD has approved a $50m financing for a heating project in Poland, a $10m equity investment in a Czechoslovakian country fund, and a DM10m loan to a packaging project in Hungary. In addition, NMB Postbank, the Dutch financial institution, has agreed a $100m agency line with the EBRD. Like the EIB global loans programme, the funds will be used to finance small and medium-sized enterprises, mainly in Poland.

## Philadelphia launches D-Mark/Yen option

By Barbara Durr in Chicago

THE Philadelphia Stock Exchange, the world's largest market for exchange-traded currency options, today launches a D-Mark/Japanese yen option that is the first US securities exchange-traded instrument not to be settled in dollars.

The cross rate option will settle premium in yen and contract settlement will involve the transfer of yen for D-Marks.

Exchange officials said they believed that cross-rates were the direction in which the market was moving. They intend to follow the yen/D-Mark cross with sterling/D-Mark and sterling/yen cross-rate options.

The sterling cross-rates have already been approved by the Securities and Exchange Commission.

Swiss Bank Corporation will act as a specialist market-maker for the new DM/Y option, and Commerzbank and Mitsubishi Bank have agreed to act as lead banks.

As lead banks they will handle the yen balances for the Options Clearing Corporation, collect premiums and extend credit facilities to the OCC.

## Warburg opens a fresh volume in BT book-building

**Hugo Dixon and Richard Waters examine the blind public auction method being adopted for the sale**

AT THE start of this week, indicative bids began to trickle into the offices of S G Warburg, adviser to the UK government on the forthcoming sale of half its near-60 per cent stake in BT.

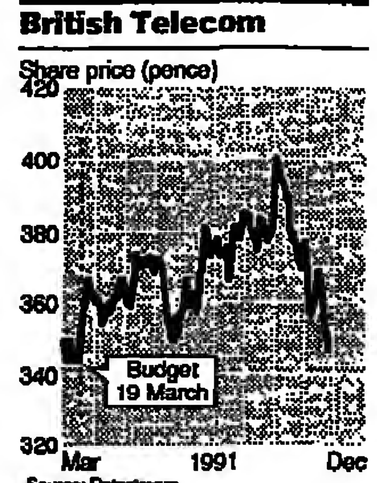
By yesterday, this trickle had developed into a steady (though still modest) flow, most from UK institutions. It was enough to prompt Mr Francis Maude, financial secretary to the Treasury, to say: "Indications of interest of volume, price sensitivity and quality are well in excess of our expectations for this early stage."

Two weeks from now, Warburg hopes to have converted that flow of indicative interest into a worldwide deluge of firm orders, completing one of the largest and most complex offers of its type ever staged.

The sort of book-building that began on BT's £5bn share sale this week may be common in international equity issues and in the eurobond markets, but has never before been mounted for a domestic equity UK issue. It is designed to overcome two weaknesses in the usual UK issuing process: the size of the discount which issuers feel they have to offer to ensure success, and the cost of underwriting (usually 1¼ per cent in the UK). Both practices have proved politically damaging for the UK government, leaving it open to accusations of selling public assets on the cheap, and of paying huge amounts of money unnecessarily to underwriters.

Should it prove a success, it could help to transform equity issuance in the UK – although many advisers in the City of London contend that the process is not well-suited to initial public offerings. According to this view, book-building works best when there is an existing market in the shares, since this provides a reference point against which investors can frame their bids.

The book-building process being used for BT is based on a form of blind public auction in which potential investors can give indications of their bidding intentions over a three-week period before making a formal bid on the final day. Although only the formal bid is binding, the global book-runner for the issue – Warburg Securities – says it will allocate shares in part on the basis of the indicative bids received in the run-up to the issue. That way, it hopes to elicit competitive bids from institutional investors and, by feeding information about bidding patterns back to the investors, to stimulate competition between institutions around the world.



Source: Datastream

When the book-building gets into full swing, indicative bids submitted to 10 regional co-ordinators around the world will be funnelled by private telephone line to a specially converted room in Warburg's headquarters. There, information of prices, volumes and institutions' names will be fed into a computer, to be used to produce an overall indication of how demand is progressing.

Final bids are due by 5.30pm on Friday, December 6: they will be analysed over the weekend, before a final strike price is set and allocations decided on the Monday. That process will not be automated, though: it depends importantly on Warburg's views on which institutions have done most to shape the book in the build-up period.

Indications of interest so far are understood to have come mainly from UK institutions. This reflects the obviously greater interest of UK institutions (BT represents 4 to 5 per cent of the total capitalisation of the companies in the FT-SE 100 index), and the progress of BT's global roadshow.

Institutions have found three very different ways of showing an interest. The choice of which one they use could determine the amount of stock allocated to them when the issue finally closes. The first has been to submit indications of interest without mentioning a price. These submissions are likely to be frowned on over the coming days, since such blank signals do not help the price-formation mechanism which is intended to shape the final strike price.

The second method has been for institutions to stipulate a price at which they would take shares. Those that have gone this route seem to be making a series of bids. For example, they might say they would be prepared to buy 50m shares at 360p, 70m at 355p and 100m at 350p. This sort of bid is, of course, vulnerable to BT's share price falling. One institution said it had had to alter its bids after the 20p drop in the share price this week.

The third approach has been to indicate a fixed premium over BT's market price that an institution is prepared to pay. The bids are at above market price because the shares are to be paid for in instalments: the value of deferring payment is generally accepted to be between 20p and 25p.

One institution said it understood that most bids were being made at a premium of up to 10p. Legal & General said it had put in a series of bids with premiums of 5p and above.

Whether these bids help to establish a "true" price depends in part on the efficiency of the market against which institutions are pricing their bids. Trading volume in BT shares in recent days has been below its norm: however, the government's advisers say trading is still active enough to ensure a true market.

## Market will need time to digest large Swedish kronor deal

By Tracy Corrigan

THE LARGEST deal to date in the Swedish kronor sector of the Eurobond market is likely to take some time to digest, according to market participants.

The SKr1bn deal for Osterreichische Kontrollbank was considered rather aggressively priced at a yield spread of 44 basis points above the 1020 government bond, but the triple-A rated name will appeal to German and Austrian accounts, dealers said.

The Swedish kronor came under some pressure last week, after the Finnish markka was devalued. Both currencies were linked to the Ecu earlier this year.

However, most investors are confident the Swedish kronor is a different case. Indeed, closer linkage to the Ecu has been suggested as possible, by politicians as well as central bankers, through associate membership of the exchange rate mechanism. The market is still seen as offering a play on "convergence" as European interest rates move closer in line.

The deal was still in syndicate at the end of trading on Thursday.

Meanwhile, Finland braved the Swiss market, after its debt was placed under review for possible downgrade following last week's devaluation. The deal was considered aggressively priced in view of the borrower's problems, but the issue held just inside fees.

In the dollar sector, Crédit Lyonnais, the French bank, raised $250m through an issue of three-year bonds.

The deal was considered attractively priced at a yield spread of 55 basis points above the comparable Treasury, with an option for investors to increase their holdings by 20 per cent by November 27 at the initial reoffer price.

Although investors have become more nervous about dollar securities, the deal met steady demand, mainly from institutional investors, and was quoted at 99.80, above its re-offer price of 99.76, helped by the strong tone in the US.

Two European companies tapped the D-Mark sector yesterday, taking advantage of better swap opportunities. Ford's DM200m six-year deal performed better than Total's DM200m 10-year deal, as investors showed a preference for the shorter maturity and the stronger credit.

Elsewhere, Apasco, the Mexican cement company, launched its first straight dollar deal, a $100m five-year transaction by Swiss Bank Corporation. The deal was priced to yield 357 basis points above the comparable Treasury.

### INTERNATIONAL BONDS

### NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees | Book runner |
|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | |
| Credit Lyonnais(a)† | 250 | 6⅞ | 99.76 | 1994 | 25/15bp | Credit Lyonnais |
| Iiva Finance(b)‡† | 150 | (b) | 100 | 2001 | 50/20bp | Merrill Lynch |
| Apasco(d)† | 100 | 10¼ | 98½ | 1996 | 1⅞/1⅛ | SBC |
| J.F Carib A.E.C.(a)† | 50 | 6¼ | 101⅛ | 1993 | 1⅛/⅝ | IBJ Int. |
| Korea Int. Merchant Bk.(c)‡† | 40 | (c) | 100 | 1994 | 30bp | KEB Int./Commerzbank |
| **D-MARKS** | | | | | | |
| Ford Motor Credit(a)† | 200 | 9 | 101.30 | 1997 | 2/1¼ | Dresdner Bank |
| Total(a)† | 200 | 8½ | 102.30 | 2001 | 2½/1½ | Deutsche Bank |
| **SWISS FRANCS** | | | | | | |
| Republic of Finland(a)★★† | 150 | 7 | 100¾ | 1996 | - | UBS |
| Sinko Kogyo(a)★★♦ | 60 | 4¾ | 100 | 1996 | 1⅝ | Coutts & Co. |
| **YEN** | | | | | | |
| Fuji Xerox(a)★★† | 10bn | 6½ | 101½ | 1999 | 1⅞/1¼ | Daiwa Europe |
| **SWEDISH KRONOR** | | | | | | |
| Oesterreichische K'bk(a)† | 1bn | 10⅜ | 101.325 | 1996 | 1⅞/1.825 | Nomura Int. |
| **GUILDERS** | | | | | | |
| Aegon(a)† | 225 | 8¾ | 100.10 | 2001 | 1/⅝ | ABN Amro |
| **NEW ZEALAND DOLLARS** | | | | | | |
| Mcdonalds System of N.Z.(a)† | 50 | 9⅜ | 101.95 | 1999 | 2/1¼ | Westpac Banking |

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays 60bp over 6-month Libor. Non-callable. c) Puttable if combined shareholding of Hong Kong & Shanghai Bank and Commerzbank falls below 30%. Coupon pays 50bp over 6-month Libor. d) Puttable at par if the shareholding by Holderbank falls below 50%. Callable 12/94 at 102.27%, 6/95 at 103%, 12/95 at 102.22%, and 6/96 at 102.85%. e) Callable 12/12/94 at 101%.

## Second Mexico company listed on NYSE

By Damian Fraser in Mexico City

VITRO has become the second Mexican company to be listed on the New York Stock Exchange (NYSE) after its successful international share offering of $228m earlier this week.

The offering, which was over-subscribed, is Mexico's second largest, following the $2.2bn stock offering in May of Telmex, the telephone company which is the only other Mexican company listed on the NYSE.

Vitro successfully placed 6.5m American depository receipts in the US, and 2.5m common shares in Mexico at $25.375 a share.

Vitro is Mexico's largest conglomerate, and one of the world's leading glass manufacturers. It has long had ambitions to be considered a North American, rather than Mexican, company.

In 1989, Vitro bought the US glass company Anchor Glass for $900m.

# LONDON MARKET STATISTICS

## FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS — Thursday November 21 1991

| | Index No. | Day's Change % | Day's High (a) | Day's Low (b) | Nov 20 | Nov 19 | Nov 18 | Nov 15 | Nov 14 | Year ago |
|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 SHARE INDEX ♦ | 2463.5 | -9.1 | 2471.1 | 2453.4 | 2472.6 | 2463.1 | 2502.9 | 2546.6 | 2561.6 | 2127.9 |

♦Opening index 2471.1; 9 am 2466.6; 10 am 2461.0; 11 am 2458.0; Noon 2460.1; 1 pm 2461.2; 2 pm 2460.1; 2.30 pm 2455.2; 3 pm 2453.9; 3.30 pm 2454.1; 4 pm 2462.8; (a) 8.30am (b) 3.09pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, Ibex House, 42-47 Minories, London EC3N 1DY. Tel: 071-702 0991.

## FIXED INTEREST

| PRICE INDICES | | Thu Nov 21 | Day's change % | Wed Nov 20 | Accrued interest | xd adj. 1991 to date |
|---|---|---|---|---|---|---|
| | British Government | | | | | |
| 1 | Up to 5 years (29) | 121.93 | -0.06 | 122.01 | 1.97 | 10.75 |
| 2 | 5-15 years (27) | 134.48 | -0.32 | 134.92 | 2.49 | 11.84 |
| 3 | Over 15 years (8) | 142.86 | -0.50 | 143.58 | 2.38 | 11.50 |
| 4 | Irredeemables (6) | 156.45 | -0.28 | 156.89 | 0.87 | 13.45 |
| 5 | All stocks (69) | 132.83 | -0.25 | 133.16 | 2.31 | 11.60 |
| | Index-Linked | | | | | |
| 6 | Up to 5 years (2) | 167.73 | -0.01 | 167.74 | 0.52 | 3.16 |
| 7 | Over 5 years (9) | 150.11 | -0.07 | 150.21 | 1.02 | 3.83 |
| 8 | All stocks (11) | 151.02 | -0.07 | 151.49 | 0.94 | 3.81 |
| 9 | Debs & Loans (66) | 112.83 | -0.31 | 113.16 | 2.14 | 9.62 |

| AVERAGE GROSS REDEMPTION YIELDS | | | Thu Nov 21 | Wed Nov 20 | Year ago (approx.) |
|---|---|---|---|---|---|
| | British Government | | | | |
| 1 | Low | 5 years | 8.67 | 8.61 | 9.73 |
| 2 | Coupons | 15 years | 9.53 | 9.53 | 10.24 |
| 3 | (0%-7¾%) | 20 years | 9.53 | 9.48 | 10.49 |
| 4 | Medium | 5 years | 9.82 | 9.77 | 11.00 |
| 5 | Coupons | 15 years | 9.67 | 9.61 | 10.89 |
| 6 | (8%-10¾%) | 20 years | 9.62 | 9.56 | 10.85 |
| 7 | High | 5 years | 10.04 | 9.99 | 11.13 |
| 8 | Coupons | 15 years | 9.76 | 9.69 | 11.07 |
| 9 | (11%-) | 20 years | 9.67 | 9.61 | 11.09 |
| 10 | Irredeemables | | 9.71 | 9.68 | 10.69 |
| | Index-Linked | | | | |
| 11 | Inflation rate 5% | Up to 5yrs. | 3.75 | 3.74 | 3.76 |
| 12 | Inflation rate 5% | Over 5 yrs. | 4.23 | 4.22 | 4.16 |
| 13 | Inflation rate 10% | Up to 5 yrs. | 3.09 | 3.08 | 2.45 |
| 14 | Inflation rate 10% | Over 5 yrs. | 4.04 | 4.03 | 3.97 |
| 15 | Debs & Loans | 5 years | 11.43 | 11.36 | 13.47 |
| 16 | | 15 years | 11.25 | 11.19 | 12.94 |
| 17 | | 25 years | 11.07 | 11.02 | 12.58 |

## RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|---|---|---|---|
| British Funds | 0 | 74 | 8 |
| Corporations, Dominion and Foreign Bonds | 1 | 11 | 8 |
| Industrials | 224 | 275 | 985 |
| Financial and Properties | 67 | 184 | 513 |
| Oils | 18 | 20 | 52 |
| Plantations | 0 | 1 | 9 |
| Mines | 4 | 14 | 91 |
| Others | 38 | 63 | 63 |
| Totals | 396 | 642 | 1,729 |

## LONDON RECENT ISSUES

EQUITIES

## FIXED INTEREST STOCKS

## RIGHTS OFFERS

## TRADITIONAL OPTIONS

- First Dealings Nov. 18
- Last Dealings Nov. 29
- Last Declarations Feb. 20
- For settlement March 2

For rate indications see end of London Share Service

Calls in Berisford Intl., Bimec Inds., Brent Walker, Brit. Aerospace, Cabra Ests., Conroy Pet., Arthur Lee, Lep, Mountleigh, Northern Foods, Steetley and Wheway. Puts in Tullow Oil and Mirror Group News.

## LONDON TRADED OPTIONS

# Cable and Wireless advances 17%

By Jane Fuller

"WE ARE not launching a rights issue for £500m or any other amount," said Lord Young, chairman of Cable and Wireless, the telecommunications group which yesterday announced a 17 per cent increase in interim pre-tax profit to £351m.

After rights issue rumours had contributed to a 42p fall in the share price over Tuesday and Wednesday, the absence of one helped the group regain 14p yesterday to close at 527p.

Lord Young said there was no reason for a rights issue when gearing on September 30 was no higher than the 14 per cent prevailing at the year-end.

C and W's capital spending in the first half increased to £398m (£337m), about 40 per cent of the £1bn planned for the full year. That figure was expected to be repeated in each of the next two years.

Mercury Communications, BT's main rival in the UK, would account for about half the spending, adding to the £1.5bn already invested since its 1984 launch. Mercury made a first-half trading profit of £69m (£50m) on sales of £439m (£316m).

Mr Rod Olsen, C and W director of finance and business planning, said that as a proportion of turnover, capital spending had fallen from 32 per cent in 1988 to 25 per cent this year. It would come down into the teens within the next five years.

Turnover in the six months to September 30 rose 24 per cent to £1.57bn (£1.26bn). Trading profit of £348m was 21 per cent ahead, while interest costs rose to £35m (£23m).

With the group operating in more than 50 countries, C and W said its three-pronged strategy was to provide:

- premium services for business customers. The recently completed global digital highway, linking business centres, would carry a range of voice and data services;
- basic networks in the large parts of the world still in need of them – 80 per cent of the population does not have a telephone;
- mobile communications, including investing in the next generation of pocket phones. Mercury Personal Communications had joined forces with Unitel to share the cost of developing a network.

Nearly half the turnover came from international telephone services, whereas domestic services grew more quickly, adding 36 per cent to make a half-yearly total of £382m.

In geographic terms, Asia and the Pacific accounted for the largest slice with £698m (£599m) turnover. Hong Kong Telecom increased its profit to £237m (£190m). Its traffic with China grew by 37 per cent.

Earnings per share grew 15 per cent to 17.3p (15.1p). The interim dividend is raised to 4.25p (3.7p).

See Lex

Lord Young: said there was no reason for a rights issue

## Tussle over rig could cost former holders of Davy £54m

By Charles Leadbeater and Andrew Bolger

FORMER shareholders in Davy Corporation may not get their second payment from Trafalgar House, the conglomerate which in June paid £114m for the troubled engineering group.

This is because of continuing problems with the conversion of the Ocean Emerald drilling rig into an oil production platform, the project which cost Davy losses of £114m and, ultimately, its independence.

Trafalgar House's successful offer was in two parts, of 50p and 45p per share, with the second instalment conditional on the completion of the project.

The second payment, due next month, was dependent on Trafalgar House drawing on an £118m letter of credit from Midland & Scottish Resources (MSR), the rig operator.

MSR shares fell 22p to close at 30p yesterday, while Trafalgar shares lost 7p to 222p.

Sir Eric Parker, chairman of Trafalgar House, has written to former Davy shareholders saying that his company's efforts to obtain payment had been frustrated by a refinancing of the contract by MSR.

MSR told Trafalgar House on October 29 that it had drawn up a plan to refinance the Emerald rig project, with Den norske Bank, the Norwegian bank, largely replacing several British clearing banks as the project's banker.

Under the plan MSR offered Den norske Bank the rig as security. However, this has jeopardised MSR's prospects of obtaining a so-called section 10, ship mortgage guarantee, from the Department of Trade and Industry. Only once the project was backed by this section 10 guarantee would Trafalgar House be in a position to draw upon the letter of credit with the project's bankers.

Davy holders will only be paid the extra 45p they are owed if Trafalgar is able to draw upon the letter of credit.

The DTI has said that in the absence of the rig as security for the section 10 guarantee they would require a guarantee from what the department calls a "first class bank". Den norske Bank's shares fell steeply during Wednesday's trading on the Oslo bourse after bank regulators criticised Norwegian banks recent conduct.

The DTI has yet to grant the section guarantee on the basis of Den norske Bank's involvement in the scheme.

MSR has told Trafalgar that under a clause in rig contract which relates to the letter of credit, Trafalgar would only be paid, after payments to the banks, once the rig was fully in production.

If MSR, the bankers and the DTI cannot agree the terms of the refinancing within the next few days it seems increasingly likely that the dispute could lead to protracted and expensive litigation over ownership of the rig.

Trafalgar House will not relinquish its legal title of ownership of the rig until it is presented with a satisfactory refinancing plan. MSR's chances of arranging a refinancing depends upon it gaining ownership of the rig, which is on location off Shetland.

It is thought that Trafalgar House's liability would be limited to £65m if it was unable to reach a deal with MSR.

# Hostile bid prompts Racal to defreeze Chubb flotation plan

By Richard Gourlay

RACAL Electronics yesterday responded to Williams Holdings £657m bid by promising to demerge its Chubb security division.

Sir Ernest Harrison, chairman of the electronics group, promised that the flotation would unlock value for shareholders in the way that the demerger of Vodafone, the cellular telephone operator, had done for them in August.

He said that splitting the business would also focus attention on the restructuring that had taken place in Racal's electronics businesses and that this would also enhance its stock market valuation.

Racal's announcement was not unexpected in the context of Williams' hostile bid. But it reverses Racal's decision in July to put a Chubb flotation on ice at least until next year.

At that time Sir Ernest said the level of Racal Electronics debt – at last year-end £225m – meant that the cash-generative Chubb would have to remain within the group until the board reviewed this year's financial results.

Sir Ernest said yesterday that stronger sales, operating profit and cash flow in the first half of the year meant debt had been reduced and Racal was enjoying the benefits of its restructuring programme.

"Racal's restructuring is now bearing fruit. Racal shareholders have absorbed its expense and should enjoy the undiluted fruits," Sir Ernest said.

Williams, which has made an all share offer, dismissed Racal's demerger plans saying it would leave Racal's shareholders with an investment in two poorly managed companies, one of them heavily geared.

Mr Brian McGowan, Williams chief executive, said he failed to see how simply splitting Racal could enhance shareholder value. Even Racal's own stockbrokers before the bid had forecast a loss for the year from its non-Chubb businesses, he said.

Racal's shareholders would have to decide whether the younger professional management of Williams was more likely to implement the necessary changes of Racal's cost structures than the existing management.

Williams was yesterday understood to have appealed to the takeover panel to have the timetable for the bid restarted as soon as possible.

On Wednesday it received approval from the Department of Trade and Industry for the bid conditional on it selling Chubb's locks and safes businesses in order to avoid increased industry concentration.

Racal said it had already received a cash offer of £450m free of debt for Racal Chubb but had rejected the offer as inadequate.

Sir Ernest said the business had sales of £647m and pointed out that when Williams bought Yale and Valor, the security company, it had paid an amount equivalent to its turnover.

Williams share price fell 3p yesterday to 315p while Racal rose 1.5p to 56p.

See Lex

# No salary for Sir Lawrie while Barratt is in the red

By Jane Fuller

SIR LAWRIE Barratt, who this summer returned from three years of retirement to lead Barratt Developments, told shareholders yesterday that he was helping to reduce the group's losses by taking no salary.

"No profit, no pay," he said, which could leave him without until next summer. His predecessor Mr John Swanson, who resigned as chairman in July, received £242,471 last year.

Barratt, the UK's third largest housebuilder, made a pre-tax loss of £106m in the year to June 30. Sir Lawrie, 64, told the annual meeting yesterday that the minimum target was to break even this year. Losses were being stemmed and "we should move into profit in the next month or two".

He also detailed the group's debt reduction, from £231m in July to £178m – compared with a peak of £290m last November. Shareholders' funds stood at £171m (£271m) at the end of June.

A 38 per cent cut in the 2,000-strong stock of unsold houses had been an important factor in reducing borrowings. The target was to bring down gearing to 50 per cent by next June, and Sir Lawrie stressed the management's commitment to do this without a rights issue.

Between £30 and £35m of debt lies in the US, where the group has retrenched in California. Negotiations with US bankers were still going on, but he anticipated no problems. Banking covenants in the UK had already been renegotiated.

Sir Lawrie expressed some optimism about an upturn in the UK housing market. Affordability had returned with house prices back at 3.5 times incomes, and mortgage rates falling.

Barratt sold just under 5,000 houses last year and expected the same again this year. "We have more than 2,000 advance sales," he said.

# Strong recovery by Hogg Robinson to over £10m

By David Churchill, Leisure Industries Correspondent

HOGG ROBINSON, the travel, transport and financial services group, yesterday reported a strong recovery in its travel operations after the slump caused by the Gulf war.

Pre-tax profits for the six months to September 30 rose by almost a quarter from £8.74m to £10.9m. Turnover increased from £48.6m to £52m.

Spearheading the profits growth was a strong surge from Hogg's leisure and business travel operations with trading profits up by 59 per cent to £5.53m (£3.47m). In the full year to end-March 1991 the impact of the Gulf war saw the division move into a £2.63m loss.

Mr Brian Perry, Hogg chairman, said the profits growth from travel was helped by a cost reduction programme started in the closing months of 1990.

Bureau de change operations were now established in most high street travel agencies and were "making a satisfactory contribution to net profits".

Growth in business travel was helped by the addition of several new corporate clients, although Mr Perry said that many corporate travel budgets remained on a tight rein.

Hogg's financial services division achieved a 41 per cent trading profits increase, from £1.56m to £2.21m due to solid growth from all areas.

The transport division had experienced a quiet start to the year with trading profits up 11 per cent to £2.11m (£1.90m).

Mr Perry said that the £6.8m acquisition earlier this month of the Dens Group would make a small contribution to earnings in the remaining months of the financial year.

For the group as a whole, Mr Perry said that while economic recovery was likely to be slow, he was "optimistic of a successful outcome for the year".

The interim dividend is lifted to 2.5p (2.25p).

# Storehouse runs up £14m loss

By Richard Gourlay

STOREHOUSE, the high street retailing group taking in BhS, Habitat and Mothercare, yesterday unveiled better-than-feared losses of £13.9m pre-tax for the 28 weeks to October 12.

BhS, formerly British Home Stores, plunged £7m into the red at the operating level compared with profits of £9.8m.

The group's overall turnround, from profits of £7.3m in the comparable period, came after what Mr Michael Julien, the chief executive, called the worst recession in 20 years.

Losses per share worked through at 2.3p against previous earnings of 1.3p but the company decided to maintain its 2.5p interim dividend. The shares rose 9p to 99p.

Sales from continuing businesses fell 4 per cent to £573.4m. Storehouse is highly operationally geared with every 1 per cent change in sales adding or subtracting £5m at the profit line.

Mr Julien said operational problems in the group had largely been addressed.

He added that the £7m operating loss at BhS included costs of reorganisation, now largely completed.

The division had been hit by a convulsive management reorganisation as well as poor sales after the Gulf war and £3m of VAT increases which it chose to swallow. In the seven weeks since the half-year end BhS, which accounts for more than half of group sales, had begun to benefit from the new management's reassessment of who its customers were and new pricing policies.

Mr Julien said sales would improve as a result of changes in sales and marketing policy changes and not from a recovery in consumer demand.

At Habitat, losses of £9.7m were reduced to £7.5m as the process of renovating the product line continued. Habitat had not achieved the right product line and was also suffering from continuing recession in the housing market.

Habitat in France continued to be profitable.

Mothercare ran up an operating loss of £2.9m compared with profits of £3.6m. The group had spent the last 18 months sorting out its stock control problems with new computers and systems.

In the pregnant mother and young child area Mothercare was still the market leader but was suffering from not offering an attractive enough selection in the 2-8 year olds category.

### COMMENT

Yesterday's share price rise showed a touching degree of faith that seven less-dreadful-than-expected weeks since the interim results can be extrapolated into a recovery story at Storehouse's main outlet, BhS. What about the perfidious English weather? It would not take too many snow-clogged weekends for hopes of a reasonably good five weeks to Christmas to be bury such optimism. The point is not frivolous. Storehouse has said more than once that it has sorted out its product range and has got its price levels correct. This time maybe it has, but the suspicion lingers that its share price is already discounting a good year-end and that there is little room for disappointment. Forecasts for the full-year range around £7m pre-tax profits or 1.2p in profits, with recovery to £20m in 1993, or 3.3p, giving a prospective multiple of 30 times.

# Loan loss provisions slow down Yorkshire Bank

By David Barchard

YORKSHIRE Bank, the English subsidiary of the National Australia Bank Group, yesterday became the latest bank to reveal a slowdown in its profits because of loan loss provisions.

Mr Graham Sunderland, general manager, described the year to September 30 1991 as rather disappointing because of bad debts. Without provisions, pre-tax profits of £107m would have been up by 23 per cent on the previous twelve months.

The after tax return on shareholders' funds had been 22.2 per cent, somewhat below the 27 per cent target set by National Australia bank, Mr Sunderland said.

Because Yorkshire Bank has moved its year end to September since joining the National Australia Bank group in February 1990, figures from only the previous nine month period in 1990 were offered for comparison.

The charge for bad debts was £76.1m, up from £27.4m. Mr Sunderland said that though there would be a substantial bad debt charge in the present year, it would be lower than last year.

Pre-tax profits were up £14.9m on the previous nine month period, while total assets were £4.41bn. Liquid assets were down from £1.15bn in 1990 to £882.4m as the bank deliberately reduced its asset book in the present market.

During the year, Yorkshire Bank gained 200,000 new current account customers and opened six new branches. Mr Sunderland said that the bank plans to continue expanding at around this number each year for the foreseeable future and could eventually reach a branch network of around 450.

The cost/income ratio was 47.5 per cent. Mr Sunderland said the balance sheet remained strong with Tier 1 capital at 7.4 per cent and Tier 2 at 3.3 per cent of total assets.

# Telfos well down at £0.86m

TELFOS, railway rolling stock engineering reported profits of £861,000 pre-tax on turnover of £21.68m for the six months to September 29.

Although the profit figure was 75 per cent down on the £3.42m returned for the half year to June 30 1990 the directors said the core activities were trading profitably.

Earnings per share amounted to 1.7p (7.7p) and the company is unable to pay an interim dividend.

Jenbacher Transportsysteme, the Austrian rolling stock company which controls 39 per cent of Telfos, earlier this month announced a recommended cash offer of 115p per share valuing the UK group at £51m. Jenbacher yesterday posted the offer document to Telfos shareholders.

During the period, the company made an extraordinary provision of £901,000 covering financial reorganisation of Industrial Securities, an Australian diversified company.

Telfos has been released from £1.3m of guarantee obligations relating to IS for which it had made full provision.

For the 15 months ended March 31 1991 Telfos incurred a pre-tax loss of £5.84m.

### DIVIDENDS ANNOUNCED

| | | | | | | |
|---|---|---|---|---|---|---|
| Barrett (Henry) | fin | nil | - | 3.65 | 2 | 5.65 |
| Black Arrow Grp | int | 0.5 | Jan 2 | 0.5 | - | 2.1 |
| British Gas | int | 4.25 | Mar 25 | 3.75 | - | 12.5 |
| Cable/Wireless | int | 4.25 | Feb 28 | 3.7 | - | 11.8 |
| Ferry Pickering | fin | 3.4 | Jan 31 | 3.1 | 5.5 | 5.2 |
| Hogg Robinson | int | 2.5 | Jan 17 | 2.25 | - | 5.55 |
| Locker (Thos) | int | 0.35 | Jan 2 | 0.5 | - | 1.6 |
| London Intl Grp | int | 3.2†☆ | Apr 6 | 3 | - | 9.25 |
| Lowndes Lambert | int | 4.2 | Feb 7 | - | - | - |
| Morland | fin | 4.99 | Jan 31 | 4.48 | 7.16 | 6.45 |
| Property Parts | int | 2.5 | Jan 15 | 2.45 | - | 6.8 |
| Rothmans Intl | int | 7.5 | Jan 21 | 6.8 | - | 18.5 |
| Storehouse | int | 2.5 | Feb 14 | 2.5 | - | 5 |
| Yeoman Inv | int | 6.6 | Dec 31 | 6.6 | - | 13.6 |
| York Waterworks | int | 2.8 | Jan 2 | 2 | - | 8.75♣ |

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ☆Carries scrip option. ♣For 15 months.

# Johnson Grp sells US arm for £3m

Johnson Group, the dry cleaning and textile rental company, yesterday announced the sale of its workwear manufacturing arm – Apparelmaster Design – to Angelica Corp of the US for £3m.

Mr Terry Greer, chairman of Johnson, said that the disposal was part of the group's intention to focus on core businesses.

# Rothmans up 10% but cautious

By Michiyo Nakamoto

ROTHMANS International, the tobacco and luxury goods group, warned that the company's rate of earnings growth was likely to be lower in the second half, as it reported a 10 per cent rise in interim pre-tax profits to £266m, against £242.6m.

Lord Swaythling, executive chairman, said that, with a 16 per cent rise in attributable earnings, to £127.5m (£109.4m) "the first six months were so good that we're being a little bit cautious about the second half".

Turnover for the six months to September 30 was £1.18bn (£1.15bn), including higher tobacco sales of £1.09bn (£1.02bn). Interest income rose to £33.1m (£28.3m). However, the trend of worldwide interest rates was down, and as a company with substantial cash "we pay a little penalty", Lord Swaythling commented.

Operating profits grew by 9 per cent to £232.9m (£214.3m). This was supported by increased operating profits from the tobacco side of £180.1m (£166.9m), stemming from strength in the Far East and growth in eastern Europe. There were also contributions from Theodorus Niemeyer, the fine-cut and pipe tobacco company acquired in the previous financial year, and the remaining share capital of PJ Carroll, which operates in Ireland.

Sales of luxury goods slipped to £102m (£109m) as the weak economic climate and the decline in international travel affected demand. Luxury product sales fell to £102m (£109m).

Rothmans also benefited in the first half from a lower effective rate of tax at 36.2 per cent, against 38 per cent.

The positive effects of a strong dollar were partly offset by the strength of sterling against other EMS currencies during the period, reducing the impact of exchange rate movements to a pre-tax profits contribution of £3m.

Earnings per share rose to 40p (34.4p) and the interim dividend is increased to 7.5p (6.8p).

### ● COMMENT

Rothmans continues to wring growth out of its tobacco operations by "managing the business properly," as Lord Swaythling puts it. The core tobacco side has proven resilient and although recovery will be slow, things are at least looking up for luxury products. A dividend yield of less than 2 per cent provides no support for the shares and there is some concern that they should be trading at a greater discount to underlying net asset value per share than the current 5 to 6 per cent. Nevertheless, full year pre-tax profits forecast at £590m gives only an average multiple of 13 times. A company with Rothmans' tight management and proven track record may perhaps be forgiven a higher premium.

## UK COMPANY NEWS

# Electronic side behind Chloride slide to £1m

By Andrew Bolger

Ray Horrocks (left) and Harold Musgrove: board changes

CHLORIDE GROUP, one of the worst performing shares of the 1980s, yesterday said it intended to split the role of chairman and chief executive after bringing out yet another set of disappointing results.

Mr Ray Horrocks, chairman, said he would hand over his executive responsibilities to Mr Keith Hodgkinson, 48, who has agreed to join Chloride next month from GEC, where he is currently deputy chairman of its electronic metrology group.

Mr Horrocks took on the additional role of chief executive in June 1989, but said yesterday this was always expected to be an interim arrangement. He added that the subsequent restructuring of Chloride had largely been completed.

In March, Chloride sold most of its former core business – batteries – for £43.5m to Hawker Siddeley, the engineering group, and said it intended to focus the now slimmed-down company on its electronics side.

Mr Horrocks said yesterday that the electronic companies had a very difficult first half, although their operating profit of £244,000 was a substantial improvement on last year's second-half loss of £1.48m.

Overall, Chloride made a pre-tax profit of £1.02m in the six months to September 30, down from £4.39m. Turnover from continuing operations was 4 per lower at £54.7m, the reduction resulting from depressed demand in most of the group's electronics markets.

The small profits were wiped out by a tax charge of £1.16m (£2.46), leading to an overall loss of £523,000, compared with a profit of £660,000.

Losses per share were 0.2p (earnings of 0.3p).

No dividend is proposed for either the ordinary or preference shares, although the chairman said this would be reviewed in light of the full-year results.

The emphasis within the electronics companies continued to be on cost reduction and improving efficiency. Compared with the second half of last year, emergency lighting had registered much better results and there was also an improvement in the performance of power supplies.

Chloride's international battery activities improved their performance, with operating profits up to £1.81m (£1.19m) on increased turnover.

Mr Horrocks said: "The outlook remains uncertain and as yet there are no clear signs of a recovery in demand in our main markets."

Mr Harold Musgrove, who was in charge of industrial batteries until that division was sold to Hawker, has left Chloride after briefly running power supplies and emergency lighting division.

See Observer

# Confounding the onlookers with a fight to the finish

**Andrew Baxter** reports on the final round in Hawker Siddeley's struggle to fight off confident BTR

NINE WEEKS to the day since BTR, the industrial conglomerate, launched the UK's biggest takeover bid of the year by offering £1.5bn for Hawker Siddeley, the battle concludes this afternoon with the result still hanging in the balance.

Hawker has refused to give in even though City sentiment has seemed set against it from the start. Last night Mr Alan Watkins, its managing director, said he believed the City institutions which will decide the company's fate today were showing a growing understanding of Hawker's industrial arguments.

Since the bid was announced on September 20, City analysts have been virtually unanimous in their comments. "It looks like a clincher to me," said one as BTR launched a bid valuing Hawker at around 20 times forecast earnings for the current year.

BTR has remained confident virtually throughout, appearing to lose its poise only once. Two weeks after its advisers were crowing privately that there was no reason to raise the bid, BTR did just that, prompting a 5 per cent fall in its shares as investors wondered why they should be paying more.

Last night, however, there was a trace of last-minute anxiety in the BTR camp with the revelation that it owned or had received acceptances for only 32.7 per cent of Hawker's shares.

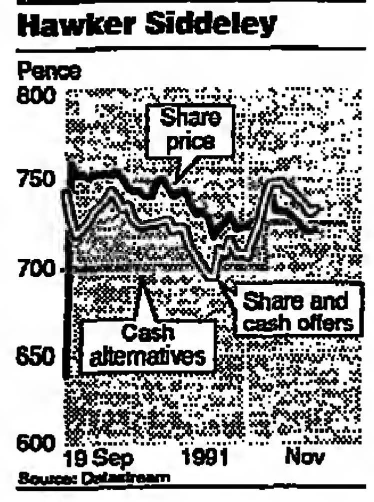
A defeat would be a sensational setback for BTR, coming after failed bids for Pilkington and Norton, the US materials maker.

Victory for Hawker would be equally sensational. Its defence got off to an unsteady start even before the bid was announced. Its dismal profits statement the day before the bid, was, for some, tantamount to a suicide note for a company around which bid speculation had swirled for some months.

The bid terms, viewed as generous without being too generous, forced Hawker to choose an industrial battleground for its defence. But the results of the restructuring begun by Mr Watkins soon after he joined Hawker in 1989 were mainly evident in areas that have an indirect, long-term effect on financial performance – a new divisional structure, and initiatives to modernise and improve manufacturing systems.

Consequently, far too much of the pre-Watkins Hawker, over-diversified, old-fashioned and sluggish, has remained despite decisions reached internally by the end of last year on a new strategic focus. Over the next three years, that would have involved the disposal of four divisions and concentration on the three where Hawker had, or could build, a global or regional presence.

**Hawker Siddeley**




Source: Datastream

The recession made it impossible to clinch the most urgent disposal, Hawker's sprawling general engineering division, its largest with sales of £509m last year. One management consultant believes things might have been very different if Mr Watkins had been appointed 18 months earlier.

But Hawker cannot blame everything on the recession. By keeping the key decisions of its 1990 strategic review under its hat, for whatever valid commercial reasons, their revelation on October 10 smacked of desperation. However much the Hawker camp argued that it was merely unveiling a previously agreed strategy, it handed BTR a propaganda victory on a plate.

**A defeat would be a sensational setback for BTR, coming after failed bids for Pilkington and Norton, the US materials maker. Victory for Hawker would be equally sensational. Its dismal profits statement the day before the bid, was, for some, tantamount to a suicide note for a company around which bid speculation had swirled.**

Having already given some indications that it planned to retain and develop much of Hawker's business, BTR missed no opportunity to accuse its target of discarding good businesses and trying to turn itself into an asset trader.

Later, Hawker was to return to its plans for the three core businesses – electric motors, industrial batteries, and aero-engine repair and overhaul – just as BTR was to give more details of its plans.

Meanwhile, Hawker attempted to turn the tables on its predator by querying its acquisition accounting practices and its recent profits record. But the engineering group seemed unable to score points against BTR without conceding some itself.

On one of the key points of the debate – whether financially-driven conglomerates are incapable of building engineering businesses long-term – the propaganda from each side has tended to cancel the other's out. Hawker went to considerable trouble to find examples of BTR acquisitions where, it claimed, long-term growth had been sacrificed to short-term margin increases. BTR hit back with counter-examples.

Hawker needs to win the industrial case convincingly to have any hope of success and has been lobbying the institutions hard right up to yesterday afternoon. For individual shareholders, telephone hotlines have been set up and videos made available.

But the bid terms have forced Hawker to fight with one arm tied behind its back.

In recent days BTR had been so sure of victory that it brought the bid close forward from next Tuesday to today, giving it more time before Christmas, it says, to get working on its new acquisition.

One particular industrial feature of BTR's plans for Hawker is likely to command attention if it does win. It says it will put together a new global electrical engineering business with sales of more than £750m, uniting Hawker's electric motors, transformers, switchgear and signalling businesses.

Hawker has criticised the plan, saying the businesses and markets are all different, but BTR believes it would create commercial advantages which Hawker's present structure fails to provide.

Achieving these synergies would be a stern test of BTR's ability, derided by Hawker, to manage global businesses, especially as it is a novice in electrical engineering.

One analyst believes BTR may at least have got an initial element of the plan right by deciding to retain Hawker's signalling activities. Hawker, in contrast, has argued that this business may be in good shape now, but would come under pressure from major European electrical engineering groups which would be better placed to handle converging trends in rail technology.

BTR, of course, would face the same pressure, and may have to emulate the long-term approach to investment of companies which seem set to be its new competitors – Asea Brown Boveri, Siemens and GEC Alsthom. But will it?

## Slight fall at Ferry Pickering

Ferry Pickering, packaging and printing, group reported a slight decline from £2.34m to £2.26m in pre-tax profits for the year to August 31.

The warning at half year by Mr Peter Wardle, chairman, that the 9 per cent improvement in sales achieved in the first six months would not continue in the second six months proved correct. Turnover for the full yearwas £29.1m (£28.97m).

Earnings per share were 12.68p (12.25p). A final dividend of 3.4p makes a 5.5p (5.2p) total.

Mr Wardle said margins were likely to remain tight until the middle of 1992 and that 1991-92 first quarter sales had continued at a lower level.

## North American gold jewellery demand up, claims Cookson arm

GOLD JEWELLERY sales will rise in North America this Christmas despite the recession, says Stern Metals, which claims to be the world's largest supplier of gold to the jewellery business and is part of Cookson, the UK specialist industrial materials group, writes Kenneth Gooding.

Stern's Stern-Leach division has been working flat out since August to meet increased Christmas demand from designers, sub-contractors and manufacturers of items from 14-carat gold chains to exclusive Cross pens and some of the most expensive jewellery money can buy.

Mr Richard Oster, Cookson's managing director, said: "We first saw the increase in demand in the summer. It picked up through September and now we must be running more than 10 per cent ahead of last year."

Mr Fred Hammerle, Stern Metals' executive vice-president, said the big success this year was huge 14-carat gold tube earrings.

He pointed out that the less expensive the gold product, the more sophisticated the production process was likely to be. For example, Stern recently installed a $1.5m computer-controlled rolling mill which compresses gold plate to a mere 0.008 of an inch.

Stern was acquired by Cookson in 1982 and each year processes more than 1m troy ounces (31 tonnes) of gold and several million ounces of silver. About 95 per cent of its customers are in North America.

## NEWS DIGEST

### Belgian arm puts Locker into the red

A DOWNTURN at its Belgium offshoot left Thomas Locker (Holdings), the engineer, £217,000 in the red at the interim stage, against profits of £1.05m. Mr David Barr, chairman, said the offshoot had been an important profit contributor last year but sales had fallen and it had incurred a loss this time.

Turnover in the six months to September 30 was £18.2m (£21.6m). Losses per share came out at 0.61p (earnings 1.64p) and the interim dividend has been cut from 0.5p to 0.35p.

### Black Arrow

Black Arrow Group, the office furniture and leasing and instalment finance company, announced a 21 per cent drop in pre-tax profits from £682,000 to £538,000 for the half year to September 30.

Sales fell from £10.73m to £8.35m with office furniture sales down 23 per cent to £7.68m (£9.92m). Mr Arnold Edward, the chairman, said that while the decline in the furniture division was less than the industry average it was nonetheless disappointing.

The interim dividend is held at 0.5p, payable from earnings of 1.07p (1.14p) per share.

### York Waterworks

Pre-tax profit at York Waterworks in the six months to September 30 was £1.17m on turnover of £3.4m. In the first half of 1990, the company has changed its year end, profits were £696,000 on turnover of £2.88m.

Turnover rose mainly as a result of an increase in tariffs from April 1 in line with inflation plus the company's K factor of 3 per cent. Earnings were 12.3p (6.8p). The interim dividend is 2.8p (2p).

### Property Partners

A reduction in pre-tax profits, from £1.07m to £925,000 was announced by Property Partnerships, property investor and hotels owner, for the half year to September 30.

Turnover amounted to £3.17m (£3.33m). Earnings declined from 6.49p to 5.76p but the interim dividend is lifted to 2.5p (2.45p).

### Ennex

Ennex International, the USM-quoted extractor of mineral oils and natural gas, incurred a pre-tax loss of £471,000 (£266,000) for the nine months ended September 30.

The figure, which compared with profits of £598,000 previously, was struck after taking account of exchange losses of £277,000 (gains £562,000).





Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

| 1/2 hour period ending | Provisional Prices for Trading Day on 21.11.91: Pool purchase price | Pool selling price | Final Prices for Trading on 15.11.91 |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

MCC Settlements Limited

Good publicity in the US following 'Magic' Johnson revelation

# LIG advances 16.5% to £20.5m

By Andrew Bolger

LONDON International Group, *the consumer products and services* company best known in the UK for making Durex condoms, said yesterday that it had received a lot of publicity *in the US relating to* Earvin "Magic" Johnson.

The company revealed that it was about to launch a condom for the US youth market when the basketball star announced that he had tested positive for HIV and urged young people to adopt safe sexual practices.

LIG, which said the condom market was continuing to expand worldwide, was reporting a 16.5 per increase in pretax profits to £20.5m in the six months to September 30.

Turnover was 2.3 per cent ahead at £190m.

Although the group's health and personal products divisions performed well, the photoprocessing division suffered from the recession in the UK, where it does 75 per cent of its business.

Mr Alan Woltz, chairman, said: "We are pleased with these results, but continue to operate on the assumption that economic conditions in the UK will not improve significantly until next year."

The health and personal products divisions increased operating profit by 22.5 per cent to £13.6m on turnover of £119.1m, up 7.2 per cent.

LIG said its Asia Pacific division continued to grow.

In May a joint venture gave the group condom market leadership in Thailand and a base to develop further in this region.

The Regent Biogel surgeons' glove business continued to increase market share in both the UK market and in North America.

The new Biogel manufacturing facility in Malaysia was completed. Manufacture of surgeons' gloves is being transferred to this new factory, with the loss of up to 650 jobs in the UK.

In September, the group agreed to acquire the Manan range of natural hair and body care products in Germany from Reckitt and Colman.

LIG said this move was consistent with its strategy of seeking niche markets within the health and beauty aids business.

In the photoprocessing division, operating profits of ColourCare fell from £12.4m to £11.5m on flat sales of £70.9m (£70.8m). The group said it had increased its share of the declining UK market for photoprocessing *at the expense of* weaker competitors. It was concentrating on operating efficiencies, technical improvements and strategic acquisitions.

Earnings per share fell to 8.27p (8.63p), partly reflecting the dilution caused by the one-for-four rights issue which raised £61.6m in January.

The interim dividend is being lifted by 6.7 per cent to 3.2p (3p).


Trevor Humphries

Alan Woltz – pleased with the half-year results

# Lowndes Lambert advances to £4.01m

By Richard Lapper

DESPITE PATCHY trading conditions, with rates in many insurance markets still very depressed, Lowndes Lambert, the insurance and reinsurance broker yesterday reported a 40 per cent increase rise in pretax profits from £2.87m to £4.01m in the six months to 30 September.

The group, which obtained a listing in July, reported a rise in earnings per share of 45 per cent to 11p (7.7p).

Total turnover increased to £29.3m (£26.1m), a rise of 13 per cent.

Revenues in the UK increased by 15 per cent although some of the increase was due to the integration of Midland Bank Insurance Brokers and the HJ Symons portfolios, which were acquired by Lowndes Lambert in the last 12 months.

Investment and other income declined to £2.79m (£3.34m).

The group has made further progress in reducing its expenses. During 1991 costs have amounted to 88.1 per cent of total income, compared with 90.8 per cent in 1990 and 92 per cent in 1989.

See Appointments

# Own brands boost Morland

by Philip Rawstorne

MORLAND & Co, the Thames Valley regional brewer, overcame "very difficult trading conditions" to lift pre-tax profits by 17 per cent from £5.07m to £5.93m. The share price responded with a jump of 27p to 360p by the close yesterday.

The results were driven by growth in sales of the company's own ales – Morland Original and Old Speckled Hen – and a thriving pub estate, said Mr Jasper Clutterbuck, chief executive.

There was virtually no contribution from the 101 pubs which Morland acquired from Courage for £16.4m after a successful rights issue at the end of June. But they were all now fully integrated and the company was poised for further growth, he added.

Operating profit for the year ended September 30 rose 28 per cent to £6.04m (£4.7m) on turnover 19 per cent higher at £33.7m (£28.4m).

Margins improved from 16.6 per cent to 17.9 per cent and earnings per share grew by 12 per cent from 20.2p to 22.7p. A recommended final dividend of 4.99p raises the total payment by 11 per cent to 7.16p (6.45p).

"Success in the production and selling of our own ales is the key to our business," Mr Clutterbuck said. Volume sales of Morland ales had risen by 7 per cent, and Old Speckled Hen had shown remarkable growth in its first year. Advertising and marketing campaigns for the premium brands had helped to gain a 30 per cent increase in free trade business.

Agreements had been signed with Courage and Whitbread that would give the company's beers wider distribution.

The retail estate continued to thrive. The managed pubs – more than 60 out of a total 300 – lifted turnover 32 per cent and profit 33 per cent.

# Henry Barrett plunges to £442,000

HENRY BARRETT Group, the stockholding and construction concern, yesterday reported a sharp dive in pre-tax profits for the year to August 31, the passing of the final dividend, and the retirement of the chairman, Mr Guy Barrett.

Mr Barrett said that the severity of the recession was reflected in the group results. Throughout the year, he said, "margins were under extreme pressure and there is little prospect for improvement . . . during the current financial year".

He added, though, that "the *elimination of loss-making* activities, cost savings and productivity improvements" would benefit the group.

Taxable profits plummeted from £12.5m to £442,000, after an exceptional charge of £400,000 (nil) relating to a further bad debt incurred in the 1989-90 year. Turnover fell by 17 per cent to £115.3m (£139.7m) and gross profit by 23 per cent to £26.8m (£35m).

The profits decline was made yet steeper by distribution costs which grew to £8.08m (£6.84m) and administration expenses up at £15.5m (£14.2m), while interest and similar charges expanded to £2.35m (£1.49m).

*Below the line, post-tax profits* of £285,000 (£8.63m) were translated into losses for the year of £2.57m (profits £8.63m) by an extraordinary charge of £2.94m (nil) incurred in connection with the withdrawal from certain business areas and reorganisation costs.

A number of businesses have already been sold and negotiations are in progress for the sale of a further four. The group has now been consolidated into three divisions: construction; stockholding; and engineered products.

Earnings were 0.77p (20.51p) per share. The 2p interim dividend represents the full-year pay-out, against last time's 5.65p.

Mr Barrett will be replaced by Mr Donald Parvin.

## THE PROPERTY MARKET

# The shape of offices to come

By Vanessa Houlder

FOR ITS first 100 years, the shape of the office was determined by the typewriter. Invented by a Chicago architect, William Jenney, at the end of the last century, the modern office was seen as an efficient machine to monitor the serried ranks of clerks armed with typewriters and telephones.

But with computers replacing clerks, so the principles of office design are back on the drawing board. Pressures for change are coming from new technology, the drive for improved productivity, decentralised styles of management, greater environmental awareness and demographic trends.

The direction of these forces is often confusing and contradictory. However, there is little doubt that they could have huge implications for the shape of new developments and the value of office stock.

This week, DEGW, a research company whose work shaped many of London's largest developments in the 1980s, unveiled the findings of its year-long study of the future of offices, entitled "The responsible workplace".

It commissioned studies of trends ranging from changes in user expectations to changes in regulations; it also carried out 19 case studies of innovative companies in Europe, ranging from Enfield Borough Council in southern England to Volvo, the car maker, in Sweden.

Its conclusions are damning about the typical UK office. "Something is very wrong with office buildings today," it says. "The fundamental problem is quite simply a divergence which we believe is likely to increase, between what people wish offices to be and what many offices have become – highly conventionalised stereotypes, the logic of which has hardly been challenged for decades."

DEGW believes there are two types of offices, neither of which is satisfactory. In the US, where developers have dominated the market, buildings are cheap, simple and efficient. (UK offices have tended to be a second-rate version of their US counterparts, thanks to tight planning rules which have resulted in smaller and less efficient buildings.)

The downside, critics say, is that the straight up-and-down US office adds nothing to the identity of the corporation and it does nothing for the well-being of the workforce, much of which sits well removed from windows and without natural light or ventilation.

At the opposite end of the scale are the offices of Scandinavia, Germany and the Netherlands, where developers' influence on the design of office buildings has been relatively weak and the employees' influence, particularly through worker councils, relatively strong.

These custom-built offices offer space, individual offices and even windows which open. The problem is that they are expensive, construction is often a slow and inefficient process, they are profligate in the use of space, and difficult to adapt and sell to another organisation.

An example which encapsulates this second style of office is Swedish airline SAS's headquarters in Stockholm. The light, airy building is based on five butterfly-shaped departmental pavilions backing onto a street-like atrium, which allows each of the 1,500 employees their own daylight office.

Yet after the extravagances of the 1980s, one of the strongest themes of the decade ahead may be the drive to cut costs and improve productivity.

Mr Bruce Lloyd, head of the management centre at the South Bank Polytechnic, is an ardent advocate of improved office productivity. "While there is ever increasing pressure to use major capital assets such as coal mines and car-assembly lines for 24 hours a day, seven days a week and nearly 52 weeks a year, the position of office blocks is virtually ignored," he says.

**A more radical solution to the waste of an expensive asset is to get rid of the office altogether**

After deducting the time when an office is shut at night and weekends, the time for holidays and sickness and the time spent drinking coffee, gossiping about office politics and organising charity marathons, Mr Lloyd reckons that the office may be used productively for just five per cent of the total time available.

The need to drive down costs has led many companies to relocate their offices in whole, or in part. Calls to London telephone directory enquiries are answered by operators in Belfast and several London-based financial services companies have moved their administrative staff to offices in Cardiff.

A more radical solution to the waste of an expensive asset is to get rid of the office altogether. It is a drastic option but improvements in technology and the reduction in costs are making it increasingly viable for companies whose employees need little supervision and face-to-face interaction.

Mr Mahlon Apgar, who runs a Baltimore property agency, decided to equip his 10 employees with a personal computer, a printer, a fax machine and a telephone, instead of renting an office. They have daily conference calls and meet for dinner and occasional weekends. "There is considerably greater potential for working at home than most people think," says Mr Apgar.

There are, he concedes, people who prefer offices because it gets them away from their children and personal life. But the benefits for employees is significant, quite apart from the tax benefits of working from home and savings on office costs. "Individuals have more flexibility, they don't have to dress up, they can see their family more and integrate their personal time with their professional time," he says.

The idea of working at home is attractive to most people, tired of spending hours commuting and city congestion, according to a survey carried out by the Henley Centre, a UK-based research organisation. Fifty-three per cent of respondents said they would like to work from home if their jobs allowed.

But most organisations would baulk at dispensing with an office altogether. An office allows staff to exchange ideas and gives a company a sense of identity.

The answer for companies with peripatetic employees might be to shrink the office, rather than get rid of it altogether. Executives working for PA, a consultancy company, are out of the office much of the time, have no fixed desk and merely pick one as and when they need it. Arthur Andersen, the accountancy company, also has a "hot desk" policy, whereby it allocates a ratio of one desk to three auditors.

The implications of increased efficiency, working away from the office and new technology have been the subject of a study entitled The Future of Offices by the Henley Centre Ireland and Business Design Group. The trend to smaller offices would lead to "office villages", it concluded.

Offices could be clustered together, with centrally provided services such as catering, security and even photocopying, the report states. The idea would not necessarily be confined to green-field office developments: office villages could be created by spanning the space between two terraces of old buildings with a glass roof, creating a new street-scape down the centre. But the idea that offices are tending to shrink and disperse is not unchallenged.

The belief behind many recent developments in London is that companies want to get away from scattered offices and bring their people together under one roof. Morgan Stanley, the financial services house, for instance, is moving out of six buildings in the City and west end and relocating to Canary Wharf in the east end, in an effort to save on costs and improve efficiency.

Evidently, the pressures that will shape the offices of the next century are conflicting. And it seems likely that diverse, cosmopolitan cities such as London will continue to need offices of different styles and types.

But, even if the trends are hard to analyse, no property developer or investor can afford to be complacent about changes in working patterns. What price an office block in 2000, if the organisations that once occupied it need merely a shared auditorium and a regular restaurant booking?

Work benefits: ice rinks and restaurants are some of the attractions of working at the Broadgate centre in London

## COMMODITIES AND AGRICULTURE

# Zinc prices rise to 7-month highs

By Kenneth Gooding, Mining Correspondent

ZINC PRICES on the London Metal Exchange climbed again yesterday to a fresh seven-month high but analysts suggested this was entirely due to technical factors and was not a sign of any recovery in demand. "The physical zinc market is very flat. Consumers are not going to pay these prices at the moment," commented Mr William Adams of the Rudolf Wolff commodity broking group.

There is no shortage of zinc as LME warehouse stocks stand at a record 158,225 tonnes, having climbed from 54,000 tonnes at the begining of this year.

Mr Angus MacMillan, analyst at Billiton-Enthoven Metals, suggested that one possible reason for the price rise was "mating season politics". Miners and smelters are currently haggling over the price to be paid for treating zinc concentrates, an intermediate material. "Given the large concentrate surplus, the smelters expect a significant increase in treatment charges but, when metal prices are about $1,000 a tonne, the mines will not wear it. Higher metal prices may make the miners more amenable to the smelters' demands."

However, other analysts insist the rise has been wholly fuelled by European merchants buying "out of the money" options and physical metal in an attempt to flush out speculators who have sold zinc short.

A month ago special high grade zinc fell to its lowest ever level on the LME – $996.50 a tonne. A steady rise since then accelerated this week. Traders said three-month metal surged from $1,147 to $1,186 a tonne at one stage yesterday before profit-taking and hedge selling halted the trend.

Three-month zinc eventually closed in London at $1,180.50, up $23.5 on the day and 8 per cent price ahead of the close on Friday.

# Fall in grain stocks 'threatens 1992 supply'

By Nancy Dunne in Washington

WORLD GRAIN stocks have sunk to a level that threatens global supplies next year if any of the major producers suffer unexpected shortfalls in 1992, according to Cargill, the international trade house.

The November Cargill Bulletin warns that the threat of food shortages in the Soviet Union have obscured the "gradual tightening of grain supplies throughout the world".

Cargill notes that the ending world stocks of wheat and coarse grains for the 1991-1992 season were estimated by the US Department of Agriculture to be dropping 6 per cent from the previous year. At the same time, world population continues to grow at the rate of about 1.5 per cent a year, rising from 4.5bn to nearly 5.4bn during the last decade.

Most of the production drop has been in the US and the Soviet Union. Soviet output of wheat and coarse grain for 1991-92 is estimated by USDA at 173.5m tonnes, a drop of more than one-fifth from the previous year. US production of 272.2m tonnes, represents a 10 per cent fall off from last 1990-91.

In the US, production is down due to "moderate growing problems - delayed planting, drought, diseases" and government set-aside programmes. The Soviet Union has suffered drought and other unfavourable weather conditions as well as severe damage to its farm infrastructure, which is likely to continue to fall apart.

Although the EC and Canada have boosted output, it has not been enough to compensate for the other declines. "Measured in number of days of supply, world stocks of wheat and coarse grains are approaching levels not seen since the food crisis days of the 1970's," Cargill says.

The true situation is not reflected in prices because government subsidies have been distorting market signals, "masking the tightness that exists in world grain supplies and hindering any realistic supply response."

● Hungary is optimistic that it will be able to export its normal volume of 1.8m to 2m tonnes of grain in 1991-92 (July-June) despite the collapse of its rouble trade to the Soviet Union, reports Rueter from Brussels.

"We hope we can do 2m tonnes again this season," Mr Laszlo Vajda, director of EC affairs at Hungary's Ministry of Agriculture, said during a grain conference in Brussels.

The season had got off to slow start, but in the last three months wheat sales had picked up and business was now around normal levels, he said.

Some deals were also being worked out in the smaller maize sector which was likely to account for 100,000 to 300,000 tonnes of the export total, he added.

# Value of timber organisation questioned

By David Blackwell

THE VALUE of the International Tropical Timber Organisation's continued existence will be called into question next week by the World Wide Fund for Nature, the environmental pressure group.

Mr Francis Sullivan, the WWF's forest conservation officer for the UK, said in London yesterday that the organisation had "totally failed" to move the timber trade towards sustainable production. Fundamental questions needed to be asked at the ITTO meeting in Yokohama, Japan, next Thursday.

"We are dissatisfied. . . it's coming to a crossroads," said Mr Sullivan, who will be attending the meeting as part of the UK delegation.

The 48-member organisation, which represents both producers and consumers, reaffirmed at its last meeting in May that all tropical timber production should be sustainable by the year 2000. However, the agreement governing the organisation has to be renegotiated in May 1994, which makes 2000 "a wholly political date", Mr Sullivan said.

WWF, which has already called for an independent review of the ITTO, has set its own target of 1995 for forest sustainability. It believes that by 2000 many tropical countries will have little productive forest left, including Sabah, Thailand, Nigeria and the Ivory Coat.

Mr Sullivan yesterday cited Sarawak as the worst case of continued over-exploitation. Between January and April this year more than 5m cubic metres of logs and sawn timber were exported. This could result in legal exports of 18m cu m for calendar 1991, possibly with a possible 7m additional cubic metres taken up through illegal exports.

This represents about 30 per cent of the world trade coming from a state the size of Britain, and is 400 per cent higher than the WWF would consider a sustainable rate of logging, Mr Sullivan said.

● The United Nations Food and Agricultural Organisation has come under attack from Friends of the Earth and other non-governmental conservation groups for blocking any effective moves to reform the UN Tropical Forestry Action Plan.

FoE said millions of hectares of tropical forest had been destroyed during the last seven years, while the FAO, which partly controls the TFAP, had only talked about the crisis. It called on donors to go it alone in setting up a revised mechanism to save the forests.

# Aluminium chiefs urge smelter project delays

By Kenneth Gooding

PLANNED ALUMINIUM smelter projects should be delayed until the industry has adjusted to the upheaval caused by the sharp increase in Soviet exports, according to the chairmen of the two largest US aluminium companies.

Mr Paul O'Neill, of the Aluminium Company of America (Alcoa), says there was a near-balance of supply and demand in the western aluminium market but this "has been destabilised by a sudden increase in supply that has eliminated profitability for much of the industry.

"If there was some prospect that the Soviet economy would return soon to its previous internal use level of aluminium, this sudden surge of Soviet metal would cause no concern. But I see no near-term hope for a resurgence of the Soviet economy. The consequence of this situation is the equivalent of a major increase in metal supply and there is a need to change the timing for expansion projects."

**Production cuts announced this year**

| Company | Total cuts (tonnes) | completed by |
|---|---|---|
| Alcan | 153,000 | already |
| Alcoa | 53,000 | this month |
| Alumix | 60,000 | next year |
| Alusuisse | 46,000 | already |
| Aluar | 15,000 | already |
| Austria Metall | 83,000 | next year |
| Hoogovens | 18,000 | already |
| Hungalu | 72,000 | end 1992 |
| Madras | 26,000 | already |
| Norsk Hydro | 45,000 | already |
| Pechiney | 74,000 | already |
| Reynolds | 121,000 | next month |
| TLM | 73,000 | already |
| VAW | 40,000 | already |
| Total | 878,000 | 5.8 per cent of western output |

Source: Reynolds Metals

Mr Bill Bourke, of Reynolds Metals, says: "We cannot ignore the fact that, with minimal demand at home, the Soviet smelters may continue putting substantial amounts of aluminium on the world market and the rest of the industry will have to adjust to this reality.

"Obviously, anyone with a smelter project on the drawing boards will do well to take a second look and re-think the project."

Reynolds estimates that Soviet aluminium sales to the west this year will be more than 1m tonnes compared with 274,000 tonnes in 1990. At the same time, recession in many industrialised countries will hold back demand. World-wide demand is forecast by the company to be only 1 per cent ahead of the 1990 level at 15.1m tonnes after a "modest" 1.8 per cent increase in the previous 12 months.

Mr Bourke points out that the industry is responding by curtailing some production. At the latest count world-wide cuts of 869,000 tonnes have been announced.

Soviet "dumping" has reduced the price of primary aluminium ingot by at least 25 cents a lb ($550 a tonne), according to Mr Stewart Spector, author of the New York-based Spector Report. Consequently, on a cash basis many western smelters are now operating in the red.

He estimates that at 50 cents a lb ($1,100 a tonne) 75 per cent of the western world's aluminium capacity is operating at or below its cash costs. At between 45 cents and 50 cents a lb 92 per cent of producers lose money on a cash basis. Last night aluminium for delivery in three months closed in London at xxx cents a lb.

Mr Spector suggests that, if aluminium prices fall much further, "the industry will be unable to raise new capital. Previously planned expansion projects will be delayed, especially in high-risk countries like the Middle East and Latin America."

Meanwhile, Alcoa's Mr O'Neill has written to President Carlos Andres Perez of Venezuela, suggesting that a $1.2bn, 300,000-tonnes-a-year smelter project in eastern Sucre state, 400 km from Caracas, in which Alcoa is involved should be shelved for the time being. The smelter would take two to three years to complete. In a letter to the president, Mr O'Neill says: "This is not a decision for all time. In fact, it is a decision that should be reviewed no less often than every six months".

# Baltic states seek wider farming horizons

**Gillian Tett** on the agriculture of newly-independent Latvia, Lithuania and Estonia

DRIVING ACROSS Lithuanian or Latvian farmland, a Western visitor is struck by an unfamiliar absence: after 50 years of collective land ownership Lithuanian and Latvian farms do not have hedges.

In coming months, though, hedges and fences may reappear on the landscape. All three newly-independent Baltic states, also including Estonia, are now embarking on agricultural reform programmes intended to break up the old state farm monopolies and boost their flagging production.

The focus of Baltic farming is on meat and milk production. The three states annually produce about 1m tonnes of meat and 5m tonnes of milk products, of which 35 to 40 per cent was previously exported to the Soviet Union. Over half of this is produced by Lithuania, the largest and most agricultural of the three Baltics.

However, in recent years, agricultural production in the Baltics, as elsewhere in the former Soviet Union, has been in marked decline. According to Mr Uldis Benikis, Latvia's deputy agricultural minister, meat and milk production is expected to drop by up to 15 per cent this year, on top of a fall of about 10 per cent in 1990. Similar drops have occurred in Lithuania and Estonia.

One reason for this fall has been the disruption in supplies of grain feed for cattle. Under the Soviet centralised planning system, Baltic farmers have become heavily dependent on imports of grain feed from the Soviet Union. Estonia, Latvia and Lithuania together annually import over 3.5m tonnes of grain feed, mostly from Russia.

This year agricultural ministries in the Baltics report that they have only received between 50 per cent and 70 per cent of their normal supplies of grain feed - partly as a result of the poor Soviet grain harvest and partly of the breakdown in trade relations between the Baltics and the Soviet Union.

Recognising that they do not have the hard currency to purchase sufficient quantities of grain on the world market, Baltic agricultural ministries are now taking steps to reduce their dependence on supplies of Soviet grain. According to Mr Benikis, one solution would be to boost the Baltics' own grain production, which is at present about 5m tonnes a year, barely enough to supply the region with flour for bread.

But some Baltic economists want to go further and diversify agricultural production more comprehensively. "We feel that we've been forced to become over-specialised in meat and milk production during the Soviet period," says Mrs Roma Naujokiene, Lithuanian deputy agricultural minister.

She suggests that in light of the Baltics' increasingly acute sugar shortages, one alternative crop that Lithuania could develop is sugar beet. Although sugar beet is well suited to Baltic climatic conditions its cultivation has been limited in Lithuania during the Soviet period, partly because of the Soviet Union's subsidised supply of cane sugar from Cuba.

"We feel that we've been forced to become over-specialised in meat and milk production during the Soviet period"

In theory, these decisions about how far to diversify should now be passing from the government to private farmers, since all three Baltics are now attempting to implement a two stranded programme for land privatisation.

Some of the largest of the collective and state farms - or *kolkhozes* and *sovkhozes* - are being turned into shareholding enterprises. The intention is to break up the remainder into small farm holdings, with the land either divided among the former workers on the collective farms, or else "returned" to descendants of previous owners, who lost the land during the forced collectivisations in the 1940s and 1950s.

Latvia claims to have created 12,500 farms, Lithuania 3,000 and Estonia 4,000, mostly smaller than 50 hectares.

However, these farms still represent a small proportion of the total farming land, and it is not clear how many of them are operational.

Furthermore, although Baltic economists hope that this privatisation drive will eventually boost production, so far this does not seem to be happening. Indeed, the dislocation caused by land redistribution is cited by Mr Benikis as a factor in the overall agricultural decline.

One problem, according to Mr Bronius Kasputis, manager of a joint stock Lithuanian farm in Zelzmariai, is that Baltic farmers are reluctant to take on the responsibility of private farming. "People here aren't yet used to working without orders," he says.

A more tangible reason, though, is the lack of a banking system to provide agricultural credits to these new farmers, and the weakness of the market mechanisms for the distribution of grain, fertilisers or agricultural produce.

At the Zelzmariai farm, for example, although some private farmers are now producing their own milk, they continue to sell it to the state farm at low state prices, since they lack access to transport to market it themselves.

According to Professor Neil Harl, an economist at Iowa state university, currently running a course on agriculture, banking and finance in the Baltics, using the state farms as distribution and collection channels may not in itself be detrimental, particularly since many of the smallest farms could be too small to be economic.

"If competition can develop between the state farms for the small farmers' custom, then they could function like the farming co-operatives in the American West," he says, pointing out that competition is also needed between the food processing plants, most of which are currently under a state monopoly.

But the low state controlled prices of meat and milk remains the main obstacle to boosting agricultural production, according to Mr Ojan Retig, economist at the Latvian joint stock farm Adaji. "It simply isn't very profitable to produce milk and meat at the moment," he says.

Baltic leaders say that they do intend to free prices next year, and hope that this, coupled with the vast export potential of the shortage ridden Soviet Union, should act as more than enough incentive to stimulate production.

They also harbour dreams of eventually reviving the trade in butter and bacon exports they once had with the West during their inter-war period of independence.

But irrespective of the myriad European Community restrictions that would block these hopes, the main obstacle remains the relatively low quality of their agricultural production and food processing - a problem that Baltic leaders say can only be solved with Western technical assistance.

## WORLD COMMODITIES PRICES

### MARKET REPORT

Gold closed just above the $365-a-troy-ounce resistance level on the London bullion market yesterday following gains in early trading in gold futures on Comex and platinum futures on Nymex. Comex advanced on further news of a possible aid package from the G-7 countries which would include a $1bn emergency loan to the Soviet Union using 104 tonnes of gold as collateral. The platinum market was underpinned by sentiment that an emergency loan to the Soviets would lessen their need to sell platinum. One London gold dealer said the market was encountering good producer interest at these higher levels, which had not been seen for some time. "I think people are finally begining to believe that there is a possibility of a prolonged rally," he added. On the London Metal Exchange aluminium continued this week's retreat under the threat of a further substantial increase in LME stocks over the next few weeks. Traders said a substantial amount of new metal was expected to arrive in Rotterdam which would add to the sizeable amount already there waiting to be stored temporarily in the open. London robusta coffee closed unchanged after touching seven-month highs during early trading.

*Compiled from Reuters*

### London Markets

| SPOT MARKETS | | + or - |
|---|---|---|
| Crude oil (per barrel FOB) | | + or - |
| Dubai | $17.55-7.65q | +0.10 |
| Brent Blend (dated) | $20.70-0.75 | +0.15 |
| Brent Blend (Jan) | $20.75-0.80 | +0.10 |
| W.T.I. (1 pm est) | $22.00-2.05q | +0.05 |
| Oil products (NWE prompt delivery per tonne CIF) | | + or - |
| Premium Gasoline | $236-238 | -1 |
| Gas Oil | $204-205 | +1.5 |
| Heavy Fuel Oil | $95-98 | +1 |
| Naphtha | $213-216 | +1 |
| Petroleum Argus Estimates | | |
| Other | | + or - |
| Gold (per troy oz)♣ | $365.55 | +2.50 |
| Silver (per troy oz)♣ | 411.5c | +2.5 |
| Platinum (per troy oz) | $373.75 | +5.40 |
| Palladium (per troy oz) | $85.25 | |
| Copper (US Producer) | 108.25c | -2.25 |
| Lead (US Producer) | 37.0c | |
| Tin (Kuala Lumpur market) | 14.74r | |
| Tin (New York) | 254.0c | +0.75 |
| Zinc (US Prime Western) | 62.0c | |
| Cattle (live weight)† | 104.65p | -0.44* |
| Sheep (dead weight)† | 148.94p | -2.16* |
| Pigs (live weight)† | 69.05p | +0.65* |
| London daily sugar (raw) | $216.2x | +2.2 |
| London daily sugar (white) | $274.8x | +0.8 |
| Tate and Lyle export price | £228.0 | +1.5 |
| Barley (English feed) | £125.5u | |
| Maize (US No. 3 yellow) | £142.5 | |
| Wheat (US Dark Northern) | £101.0 | |
| Rubber (Dec)♥ | 50.75p | -0.25 |
| Rubber (Jan)♥ | 51.00p | -0.25 |
| Rubber (KL RSS No 1 Dec) | 221.5m | -0.5 |
| Coconut oil (Philippines)§ | $565.0v | |
| Palm Oil (Malaysian)§ | $362.5x | |
| Copra (Philippines)§ | $375.0z | |
| Soyabeans (US) | £145.5 | |
| Cotton "A" index | 63.00c | +0.05 |
| Wooltops (64s Super) | 398p | -5 |

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jan s-Sep/Dec u-Jan/Mar x-Nov/Dec y-Jan/Feb z-Dec. †Meat Commission average fatstock prices * change from a week ago ♥London physical market. §CIF Rotterdam ♣ Bullion market close. m-Malaysian cents/kg

**COCOA – London FOX £/tonne**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 729 | 735 | 735 | 726 |
| Mar | 768 | 773 | 774 | 764 |
| May | 789 | 796 | 795 | 788 |
| Jul | 812 | 820 | 818 | 811 |
| Sep | 835 | 842 | 841 | 833 |
| Dec | 861 | 868 | 865 | 860 |
| Mar | 887 | 893 | 887 | 887 |
| May | [illegible] | [illegible] | | |
| Sep | 904 | 911 | 905 | |

Turnover: 8053 (4442) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Nov.20 670.46 (669.46) 10 day average for Nov.21 653.37 (651.20)

**COFFEE – London FOX $/tonne**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Nov | 603 | 604 | 607 | 598 |
| Jan | 607 | 607 | 609 | 601 |
| Mar | 591 | 591 | 593 | 585 |

Turnover: 5241 (5836) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Nov.20: Comp. daily 65.46 (65.00) 15 day average 63.79 (63.64)

**SUGAR – London FOX ($ per tonne)**

| Raw | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 182.00 | 187.00 | 182.60 | |
| Mar | 184.60 | 182.20 | 184.80 | 182.00 |
| May | 185.00 | 184.20 | 182.20 | 182.00 |
| Aug | 189.00 | 189.20 | 188.00 | 186.40 |
| Oct | 188.80 | | 185.00 | |
| White | Close | Previous | High/Low | |
| Dec | 278.5 | 274.0 | 278.5 | 272.0 |
| Mar | 276.5 | 273.5 | 278.5 | 275.0 |
| May | 278.5 | 276.0 | 270.5 | 278.5 |
| Aug | 278.5 | 275.0 | 277.5 | 273.5 |
| Oct | 255.0 | 251.0 | 254.0 | 251.5 |
| Mar | 256.0 | 252.0 | 256.0 | 253.0 |

Turnover: Raw 445 (883) lots of 50 tonnes. White 1524 (1274).
Paris- White (FFr per tonne): Mar 1530.40 May 1540.54

**CRUDE OIL – IPE $/barrel**

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 20.81 | 20.71 | 20.94 | 20.70 |
| Feb | 20.62 | 20.54 | 20.71 | 20.61 |
| Mar | 20.48 | 20.25 | 20.48 | 20.42 |
| Apr | 20.25 | 19.95 | 20.29 | 20.21 |
| May | 20.03 | 19.80 | 20.05 | 20.01 |
| Jun | 19.90 | 19.75 | 19.90 | |
| IPE Index | 20.60 | 20.57 | | |

Turnover 12000 (24607)

**GAS OIL – IPE $/tonne**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 202.75 | 201.75 | 208.00 | 202.00 |
| Jan | 203.50 | 202.25 | 206.00 | 202.50 |
| Feb | 199.25 | 197.00 | 201.00 | 198.50 |
| Mar | 193.00 | 190.25 | 194.00 | 192.00 |
| Apr | 185.00 | 182.50 | 187.00 | 185.00 |

Turnover 12422 (13659) lots of 100 tonnes

**FRUIT AND VEGETABLES**

Spanish Almeria and Napoleon grapes are superb this week at 50-65p a lb (50-60p), reports FFVIB. Other good fruit buys include bananas at 45-70p a lb (45-70p), satsumas at 40-50p a lb (45-55p) and kiwifruit at 15-25p each (15-29p). Root vegetables are great with swede at 15-20p a lb (15-20p), turnips at 20-25p a lb (20-28p), carrots at 15-20p a lb (15-20p) and parsnips at 18-28p a lb (18-28p). Potatoes remain a best buy at 12-14p a lb (12-14p) along with leeks at 45-60p a lb (45-50p). English celery is 30-45p (30-40p) a head this week. Cucumber at 50-60p each (50-60p) and beetroot at 20-25p a lb (20-25p) rounds up the best salad buys.

**POTATOES – London FOX £/tonne**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 130.0 | 131.2 | 130.3 | |
| Apr | 129.6 | 129.8 | 130.7 | 129.3 |

Turnover 117 (150) lots of 20 tonnes.

**SOYAMEAL – London FOX £/tonne**

| | Close | Previous | High/Low |
|---|---|---|---|
| Apr | 128.00 | 128.00 | 128.00 |
| Jun | 125.00 | 125.00 | |
| Aug | 122.50 | 122.50 | |

Turnover 118 (135) lots of 20 tonnes.

**FREIGHT – London FOX $10/index point**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Nov | 1632 | 1626 | 1635 | 1625 |
| Dec | 1653 | 1630 | 1668 | 1630 |
| Jan | 1700 | 1685 | 1700 | 1685 |
| Apr | 1700 | 1685 | 1700 | 1695 |
| Jul | 1475 | 1441 | 1480 | 1470 |
| Oct | 1578 | 1570 | | |
| BFI | 1585 | 1598 | 1595 | |

Turnover 392 (261)

**GRAINS – London FOX £/tonne**

| Wheat | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 124.20 | 124.05 | 124.50 | 124.05 |
| Mar | 127.50 | 127.50 | 127.85 | 127.50 |
| May | 130.50 | 130.30 | 130.80 | 130.25 |
| Jun | 132.15 | 132.25 | 132.35 | 132.25 |
| Barley | Close | Previous | High/Low | |
| Nov | 115.90 | | 115.75 | 115.70 |
| Jan | 118.20 | 118.15 | 118.50 | 118.20 |
| Mar | 121.50 | | 121.50 | |

Turnover: Wheat 399 (346), Barley 128 (8). Turnover lots of 100 Tonnes.

**PIGS – London FOX (Cash Settlement) p/kg**

| | Close | Previous | High/Low |
|---|---|---|---|
| Jan | 104.0 | 104.0 | 103.5 |
| Feb | 104.5 | 105.0 | 105.0 |
| Jun | 108.0 | 108.0 | 107.5 |

Turnover 27 (68) lots of 3,250 kg

**MEAT – London FOX**

| | Close | Prev. | High | Low | Vol |
|---|---|---|---|---|---|
| Indx | 135.15 | 134.89 | | | |

**LONDON METAL EXCHANGE** (Prices supplied by Amalgamated Metal Trading)

| | Close | Previous | High/Low | AM Official | Kerb close | Open Interest |
|---|---|---|---|---|---|---|
| **Aluminium, 99.7% purity ($ per tonne)** | | | | | Total daily turnover 21,367 lots | |
| Cash | 1134.5-5.5 | 1136-7 | 1127 | 1127-7.5 | | |
| 3 months | 1151-1.5 | 1154-4.5 | 1160/1150 | 1154.5-6 | 1153-4 | 136,075 lots |
| **Copper, Grade A (£ per tonne)** | | | | | Total daily turnover 27,500 lots | |
| Cash | 1311-2 | 1313-4 | 1315/1308 | 1313-4 | | |
| 3 months | 1290-1 | 1295.5-7 | 1297/1285 | 1295.5-6 | 1290-1 | 107,512 lots |
| **Lead (£ per tonne)** | | | | | Total daily turnover 2,847 lots | |
| Cash | 294-5 | 294-5 | 294.25 | 294.5-5 | | |
| 3 months | 295.5-6 | 296-6.5 | 298/295.5 | 295.5-5.75 | 296-6 | 14,085 lots |
| **Nickel ($ per tonne)** | | | | | Total daily turnover 2,725 lots | |
| Cash | 7145-65 | 7140-50 | 7170 | 7165-70 | | |
| 3 months | 7210-5 | 7210-5 | 7250/7210 | 7230-40 | 7200-10 | 18,333 lots |
| **Tin ($ per tonne)** | | | | | Total daily turnover 786 lots | |
| Cash | 5510-20 | 5510-20 | | 5480-7 | | |
| 3 months | 5570-5 | 5575-80 | 5570/5550 | 5550-5 | 5572-4 | 4,900 lots |
| **Zinc, Special High Grade ($ per tonne)** | | | | | Total daily turnover 12,039 lots | |
| Cash | 1180-2 | 1156-8 | 1184/1183.5 | 1183.5-4 | | |
| 3 months | 1180-1 | 1155-7 | 1183.5/1148 | 1183-4 | 1168-8 | 35,507 lots |

LME Closing US rate: SPOT: 1.7773 3 months: 1.7541 6 months: 1.7323 9 months: 1.7314

**LONDON BULLION MARKET** (Prices supplied by N.M.Rothschild)

| Gold (fine oz) | $ price | £ equivalent |
|---|---|---|
| Close | 365.30-365.80 | |
| Opening | 363.70-364.00 | |
| Morning fix | 363.75 | 202.725 |
| Afternoon fix | 364.30 | 202.601 |
| Day's high | 365.30-365.80 | |
| Day's low | 363.50-363.90 | |

| Loco Ldn Mean Gold Lending Rates (Vs US$) | | | |
|---|---|---|---|
| 1 month | 4.47 | 6 months | 4.34 |
| 2 months | 4.37 | 12 months | 4.26 |
| 3 months | 4.49 | | |

| Silver fix | p/fine oz | US cts equiv |
|---|---|---|
| Spot | 228.55 | 409.60 |
| 3 months | 234.60 | 414.70 |
| 6 months | 240.50 | 418.80 |
| 12 months | 252.05 | 430.00 |

**GOLD COINS** (Prices supplied by Engelhard Metals)

| | $ price | £ equivalent |
|---|---|---|
| Krugerrand | 364.25-365.25 | 202.50-203.00 |
| Maple leaf | 374.50-375.50 | 208.25-208.75 |
| New Sovereign | 89.00-90.00 | 49.50-50.00 |

**TRADED OPTIONS**

| Coffee | Jan | Mar | Jan | Mar |
|---|---|---|---|---|
| 550 | 51 | 52 | 4 | 11 |
| 600 | 25 | 24 | 19 | 33 |
| 650 | 8 | 10 | 51 | 59 |
| **Cocoa** | **Mar** | **May** | **Mar** | **May** |
| 725 | 65 | 59 | 22 | 45 |
| 775 | 50 | 47 | 32 | 58 |
| 800 | 38 | 39 | 45 | 75 |
| **Brent Crude** | **Jan** | **Feb** | **Jan** | **Feb** |
| 2050 | 86 | | 29 | |
| 2100 | 40 | 60 | 42 | 61 |
| 2150 | 22 | 36 | 96 | 126 |

### New York

**GOLD 100 troy oz.; $/troy oz.**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Nov | 366.2 | 364.3 | 0 | 0 |
| Dec | 366.8 | 364.7 | 370.7 | 362.7 |
| Jan | 370.2 | 368.3 | 0 | 0 |
| Feb | 371.6 | 367.7 | 374.0 | 366.9 |
| Apr | 374.1 | 370.2 | 376.5 | 369.5 |
| Jun | 376.6 | 372.7 | 378.5 | 372.7 |
| Aug | 379.2 | 375.4 | 379.8 | 376.0 |
| Oct | 381.8 | 378.0 | 0 | 0 |
| Dec | 384.5 | 380.6 | 386.5 | 380.5 |

**PLATINUM 50 troy oz; $/troy oz.**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Nov | 371.8 | 370.5 | 0 | 0 |
| Jan | 374.3 | 373.2 | 377.0 | 372.5 |
| Apr | 378.5 | 375.8 | 379.5 | 376.0 |
| Jul | 379.6 | 378.8 | 382.0 | 379.0 |
| Oct | 385.6 | 384.6 | 0 | 0 |

**SILVER 5,000 troy oz; cents/troy oz.**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Nov | 412.2 | 407.5 | 0 | 0 |
| Dec | 412.5 | 408.2 | 415.0 | 406.0 |
| Jan | 414.4 | 410.1 | 0 | 0 |
| Mar | 418.1 | 414.2 | 419.0 | 412.5 |
| May | 422.5 | 418.2 | 423.0 | 416.0 |
| Jul | 426.3 | 422.0 | 427.0 | 420.5 |
| Sep | 430.0 | 426.0 | 429.5 | 428.5 |
| Dec | 436.3 | 432.0 | 437.0 | 432.0 |
| Jan | 438.2 | 434.1 | 0 | 0 |
| Mar | 442.8 | 438.4 | 439.0 | 439.0 |

**HIGH GRADE COPPER 25,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Nov | 103.75 | 104.00 | 104.15 | 103.60 |
| Dec | 103.45 | 103.60 | 104.05 | 103.30 |
| Jan | 103.15 | 103.30 | 103.40 | 103.00 |
| Feb | 102.70 | 102.80 | 102.95 | 102.70 |
| Mar | 102.45 | 102.50 | 102.90 | 102.00 |
| Apr | 101.95 | 101.90 | 0 | 0 |
| May | 101.45 | 101.50 | 101.70 | 101.00 |
| Jun | 101.00 | 101.05 | 101.40 | 101.40 |
| Jul | 100.55 | 100.60 | 101.00 | 100.50 |
| Aug | 100.10 | 100.15 | 0 | 0 |

**HEATING OIL 42,000 US galls, cents/US galls**

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 6425 | 6373 | 6495 | 6405 |
| Jan | 6445 | 6394 | 6495 | 6415 |
| Feb | 6200 | 6164 | 6240 | 6180 |
| Mar | 5925 | 5881 | 5945 | 5900 |
| Apr | 5590 | 5570 | 5600 | 5580 |
| May | [illegible] | [illegible] | [illegible] | [illegible] |
| Jun | [illegible] | [illegible] | [illegible] | [illegible] |
| Jul | [illegible] | [illegible] | [illegible] | [illegible] |
| Aug | [illegible] | [illegible] | [illegible] | [illegible] |

**COCOA 10 tonnes;$/tonnes**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 1215 | 1221 | 1226 | 1212 |
| Mar | 1277 | 1281 | 1283 | 1267 |
| May | 1310 | 1312 | 1318 | 1301 |
| Jul | 1342 | 1348 | 1340 | 1340 |
| Sep | 1372 | 1375 | 1367 | 1366 |
| Dec | 1402 | 1405 | 1405 | 1405 |
| Mar | 1437 | 1440 | 0 | 0 |
| May | 1461 | 1464 | 0 | 0 |
| Jul | 1481 | 1484 | 0 | 0 |
| Sep | 1501 | 1504 | 0 | 0 |

**COFFEE "C" 37,500lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 79.95 | 80.00 | 80.50 | 79.40 |
| Mar | 84.70 | 84.80 | 85.30 | 83.90 |
| May | 87.55 | 87.60 | 87.85 | 86.80 |
| Jul | 89.90 | 89.90 | 89.90 | 89.05 |
| Sep | 92.40 | 92.40 | 0 | 0 |
| Dec | 95.00 | 95.00 | 96.00 | 95.00 |
| Mar | 98.00 | 98.00 | 0 | 0 |

**SUGAR WORLD "11" 112,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 8.44 | 8.34 | 8.49 | 8.37 |
| May | 8.44 | 8.30 | 8.47 | 8.37 |
| Jul | 8.43 | 8.29 | 8.46 | 8.36 |
| Oct | 8.33 | 8.21 | 8.36 | 8.28 |
| Mar | 8.37 | 8.27 | 8.38 | 8.33 |

**COTTON 50,000; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 58.25 | 58.79 | 59.00 | 58.13 |
| Mar | 60.70 | 60.82 | 61.31 | 60.60 |
| May | 61.75 | 61.65 | 62.15 | 61.50 |
| Jul | 62.60 | 62.38 | 62.80 | 62.20 |
| Oct | 63.20 | 63.10 | 63.60 | 63.00 |
| Dec | 63.90 | 64.05 | 64.15 | 63.75 |
| Mar | 65.17 | 65.33 | 0 | 0 |
| May | 65.91 | 66.04 | 0 | 0 |

**ORANGE JUICE 15,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 167.95 | 166.90 | 168.00 | 166.00 |
| Mar | 169.00 | 168.00 | 169.00 | 167.40 |
| May | 169.50 | 168.45 | 169.50 | 167.90 |
| Jul | 168.00 | 167.90 | 169.00 | 168.00 |
| Sep | 167.25 | 166.90 | 168.00 | 165.90 |
| Nov | 156.25 | 154.75 | 159.00 | 156.00 |
| Jan | 155.45 | 154.00 | 156.50 | 155.00 |
| Mar | 155.45 | 155.00 | 0 | 0 |

**CRUDE OIL (Light) 42,000 US galls $/barrel**

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 22.05 | 21.99 | 22.20 | 21.98 |
| Feb | 21.87 | 21.84 | 22.02 | 21.81 |
| Mar | 21.68 | 21.65 | 21.80 | 21.62 |
| Jun | 21.13 | 21.14 | 21.25 | 21.15 |

**INDICES**

| REUTERS (Base: September 18 1931 = 100) | | | |
|---|---|---|---|
| Nov.21 | Nov.20 | mnth ago | yr ago |
| 1822.2 | 1831.4 | 1870.1 | 1704.5 |

| DOW JONES (Base: Dec. 31 1974 = 100) | | | | |
|---|---|---|---|---|
| | Nov.20 | Nov.19 | mnth ago | yr ago |
| Spot | 114.90 | 114.39 | 114.27 | 123.40 |
| Futures | 122.75 | 122.39 | 123.89 | 124.40 |

### Chicago

**SOYABEANS 5,000 bu min; cents/60lb bushel**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 559/4 | 564/4 | 565/4 | 557/6 |
| Mar | 569/0 | 570/6 | 573/0 | 564/0 |
| May | 576/0 | 577/4 | 579/4 | 572/0 |
| Jul | 580/4 | 582/0 | 583/0 | 577/4 |
| Aug | 581/0 | 584/4 | 585/0 | 579/0 |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] |
| Nov | [illegible] | [illegible] | [illegible] | [illegible] |
| Jan | [illegible] | [illegible] | [illegible] | [illegible] |

**SOYABEAN OIL 60,000 lbs; cents/lb**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 18.60 | 18.91 | 18.90 | 18.56 |
| Jan | 18.78 | 19.07 | 19.07 | 18.65 |
| Mar | 19.11 | 19.41 | 19.41 | 18.99 |
| May | 19.36 | 19.71 | 19.70 | 19.22 |
| Jul | 19.70 | 19.99 | 20.00 | 19.65 |
| Aug | 19.90 | 20.20 | 20.06 | 19.85 |
| Sep | 20.01 | 20.25 | 20.15 | 20.00 |
| Oct | 20.00 | 20.35 | 20.00 | 20.00 |

**SOYABEAN MEAL 100 tons; $/ton**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |
| Jan | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] |
| May | [illegible] | [illegible] | [illegible] | [illegible] |
| Jul | [illegible] | [illegible] | [illegible] | [illegible] |
| Aug | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] |
| Oct | [illegible] | [illegible] | [illegible] | [illegible] |

**MAIZE 5,000 bu min; cents/56lb bushel**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | 241/2 | 241/6 | 243/2 | 240/6 |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] |
| May | [illegible] | [illegible] | [illegible] | [illegible] |
| Jul | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] |

**WHEAT 5,000 bu min; cents/60lb-bushel**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] |
| May | [illegible] | [illegible] | [illegible] | [illegible] |
| Jul | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |

**LIVE CATTLE 40,000 lbs; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |
| Feb | [illegible] | [illegible] | [illegible] | [illegible] |
| Apr | [illegible] | [illegible] | [illegible] | [illegible] |
| Jun | [illegible] | [illegible] | [illegible] | [illegible] |
| Aug | [illegible] | [illegible] | [illegible] | [illegible] |
| Oct | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |

**LIVE HOGS 40,000 lb; cents/lbs**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |
| Feb | [illegible] | [illegible] | [illegible] | [illegible] |
| Apr | [illegible] | [illegible] | [illegible] | [illegible] |
| Jun | [illegible] | [illegible] | [illegible] | [illegible] |
| Jul | [illegible] | [illegible] | [illegible] | [illegible] |
| Aug | [illegible] | [illegible] | [illegible] | [illegible] |
| Oct | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] |

**PORK BELLIES 40,000 lbs; cents/lb**

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] |
| May | [illegible] | [illegible] | [illegible] | [illegible] |
| Jul | [illegible] | [illegible] | [illegible] | [illegible] |
| Aug | [illegible] | [illegible] | [illegible] | [illegible] |

# LONDON STOCK EXCHANGE

## Share prices slide in nervous trading

By Terry Byland, UK Stock Market Editor

NERVOUSNESS over the outlook for Wall Street and for domestic interest rates continued to unsettle the London stock market yesterday. The Bundesbank's decision to leave German interest rates unchanged for the present did little to lift the burden of uncertainty over UK rates as London money market rates again signalled upward pressures. Political tensions increased as the UK House of Commons debated the proposals for European economic and political union. The FT-SE Index gave back the nine-point gain of the previous session, closing 9.1 down at 2,463.5.

The one consolation for London equity traders was that volume in equities was low, with trading fading away in the afternoon when the New York stock market opened the new trading session without a significant trend; the Dow showed a gain of 4.25 in UK business hours.

| Account Dealing Dates | | |
|---|---|---|
| *First Dealings: | | |
| Nov 11 | Nov 25 | Dec 9 |
| Option Declarations: | | |
| Nov 21 | Dec 5 | Dec 23 |
| Last Dealings: | | |
| Nov 22 | Dec 6 | Dec 27 |
| Account Day: | | |
| Dec 2 | Dec 16 | Jan 6 |

*New-time dealings may take place from 8.30 am two business days earlier.

Traders agreed that, with any cut in UK base rates apparently ruled out by weakness in sterling and the outlook for Wall Street negative, the UK market continues to face an uncertain outlook.

Equities opened lower behind a sluggish performance from Wall Street overnight and, in spite of the absence of the widely-predicted rights issue from Cable and Wireless, drifted lower throughout the session. The lowest point of the day, a fall of 19.2 to 2,453.4 on the Footsie, was reached as London waited for New York to open. The relatively steady start on Wall Street proved enough to promote a swift rally in London share prices, although it did not inspire increased trading volume.

The lack of confidence across the wide range of the stock market left share prices to respond to specific situations. British Gas edged firmer on news of a higher dividend payment and Cable and Wireless rose sharply after pleasing the market with good profit figures as well as its omission of fund-raising moves.

The bid sector was brought to life again by sudden rush of suggestions that Ultramar could shortly face a determined US counter bidder to outface the Lasmo offer.

Insurance stocks weaked as analysts continued to take a hard look at the problems posed by the collapse in the UK domestic housing market, where housing repossessions are placing substantial claims on the UK mortgage insurers.

Seaq-reported trading volume slipped to 534.1m shares from Wednesday's 481.2m, reviving concern over the profitability of London-based securities firms. Wednesday's volume reflected retail or customer business worth £980.9m, indicating a slowdown in genuine investment business as share prices rallied on inter-dealer business.

Yesterday's selling reflected profit-taking ahead of the close of the equity trading account tonight. The two week account has brought a substantial setback in share prices as London has reacted to the shakeout on Wall Street and to the dashing of hopes for an early cut in UK base rates. Many of the market dealers who have inspired the bulk of market activity this week were inclined to take profits yesterday rather than take the risk of a further fall on Wall Street overnight.

Strategists at Credit Lyonnais capital Markets summarised the problems yesterday; "Spare a little thought for our policy-makers. No matter what they do it seems they just cannot win at the moment".

### FINANCIAL TIMES STOCK INDICES

| | Nov 21 | Nov 20 | Nov 19 | Nov 18 | Nov 15 | Year Ago | 1991 High | 1991 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs | 86.48 | 86.72 | 86.72 | 86.83 | 86.90 | 81.73 | 87.94 (18/8) | 82.17 (2/1) | 127.4 (9/1/35) | 49.18 (3/1/75) |
| Fixed Interest | 96.20 | 96.39 | 96.40 | 96.49 | 96.54 | 86.78 | 97.17 (2/10) | 86.59 (2/1) | 105.4 (28/11/47) | 50.53 (3/1/75) |
| Ordinary Share● | 1886.8 | 1896.2 | 1887.8 | 1914.9 | 1946.6 | 1872.2 | 2108.3 (2/9) | 1609.3 (16/1) | 2108.3 (2/9/91) | 49.4 (26/6/40) |
| Gold Mines | 157.8 | 156.5 | 153.2 | 151.9 | 149.8 | 158.0 | 222.8 (11/7) | 127.0 (22/2) | 734.7 (15/2/83) | 43.5 (26/10/71) |
| FT-SE 100 Share | 2463.5 | 2472.6 | 2463.1 | 2502.9 | 2546.6 | 2127.9 | 2679.6 (2/9) | 2054.8 (16/1) | 2679.6 (2/9/91) | 986.9 (23/7/84) |
| FT-SE Eurotrack 200 | 1119.14 | 1124.02 | 1122.47 | 1134.49 | 1161.16 | - | 1198.60 (3/6) | 938.62 (16/1) | 1198.60 (3/6/91) | 938.62 (16/1/91) |
| ●Ord. Div. Yield | 5.18 | 5.16 | 5.18 | 5.11 | 5.03 | 5.77 | | | | |
| ●Earning Yld %(full) | 7.41 | 7.40 | 7.43 | 7.35 | 7.23 | 12.06 | | | | |
| ●P/E Ratio(Net)(*) | 16.98 | 17.02 | 16.96 | 17.13 | 17.41 | 10.04 | | | | |
| SEAQ Bargains 4.45pm | 24,905 | 25,821 | 26,965 | 33,963 | 24,917 | 28,992 | | | | |
| Equity Turnover(£m)† | - | 980.85 | 1031.16 | 1122.13 | 832.03 | 872.65 | | | | |
| Equity Bargains† | - | 25,280 | 25,835 | 32,393 | 24,497 | 24,564 | | | | |
| Shares Traded (ml)† | - | 424.4 | 398.8 | 401.1 | 364.8 | 402.5 | | | | |

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90 ● Nil 15.60. * Partial

Ordinary Share Index, Hourly changes — Day's High 1898.1 — Day's Low 1881.5

| Open | 9 am | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm | 4 pm |
|---|---|---|---|---|---|---|---|---|
| 1897.8 | 1895.8 | 1891.4 | 1883.7 | 1886.6 | 1886.2 | 1886.7 | 1881.8 | 1888.5 |

FT-SE 100, Hourly changes — Day's High 2471.1 — Day's Low 2453.4

| Open | 9 am | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm | 4 pm |
|---|---|---|---|---|---|---|---|---|
| 2471.1 | 2466.6 | 2461.0 | 2458.0 | 2460.1 | 2461.2 | 2460.1 | 2453.9 | 2463.2 |

FT-SE Eurotrack 200, Hourly changes †Day's High 1122.38 — Day's Low 1117.06

| Open | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm |
|---|---|---|---|---|---|---|
| 1120.28 | 1120.58 | 1120.23 | 1121.30 | 1121.69 | 1120.58 | 1117.79 |

### GILT EDGED ACTIVITY

| Indices* | Nov 20 | Nov 19 |
|---|---|---|
| Gilt Edged Bargains | 75.3 | 91.3 |
| 5-Day average | 88.0 | 90.2 |

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

## Alert on Ultramar battle

OIL SECTOR dealers braced themselves for imminent developments on the Ultramar bid front as stories circulated that a rival offer to Lasmo's one-for-one terms was pending.

Atlantic Richfield (Arco), the US oil and gas group, was said to be the favourite. Rumours suggested that Arco would make a 376p a share offer. Stories of a higher bid originated in the traded options market, where hints of the Lasmo bid first emerged.

Ultramar shares closed a net 16 higher at 330p with turnover at 3.6m, much higher than usual. Strong buying by one leading US investment bank previously associated with corporate moves undertaken by Arco increased the bid speculation. A dealer said: "It looks as if a poacher could have been at work, possibly accumulating a small stake before launching a full-bid." Lasmo, given a rough ride in the market recently, forged ahead 15 to 300p.

### Asda busy

Asda topped by far the list of active stocks in the FT-SE 100 constituents after a substantial profits downgrade by Hoare Govett, the UK broker. Hoare reduced its current year profits forecast from £126m to £85m - now easily the lowest of market estimates, which range up to £110m - blaming poor trading at Asda's supermarkets.

Adding to yesterday's weakness were suggestions that Asda might be about to restate last year's profits. However, Asda commented: "Absolutely no new information was imparted today; we are not restating any numbers."

Mr Patrick Gillam, Asda's chairman, and Mr Archie Norman, the newly appointed chief executive, are understood to have met several City food retailing specialists yesterday.

The shares retreated to 36¼p before closing a net 2½ down at 38½p. Turnover was exceptionally heavy at 28m shares, and Asda was also the second most active instrument in the traded options market.

### Gas in demand

British Gas gave another strong performance, with the shares ending 4¼ higher at 255¼p on heavy turnover of 12m. The stock responded to the good news on the dividend front. Gas announced a half-time dividend of 4.25p and a special interim of 6p.

Smith New Court lifted its 1992 dividend forecast from 15p to 15½p and labelled the stock "one of the cheapest in the market". Strauss Turnbull, describing the shares as "very, very attractive", highlighted the "low gearing, immense financial strength and a well-focused financial strategy".

### Insurer down

Sun Alliance came under substantial selling pressure late in the session as Charterhouse Tilney, the stockbroker, increased its forecast of mortgage indemnity losses for the period 1991-1993 to £550m.

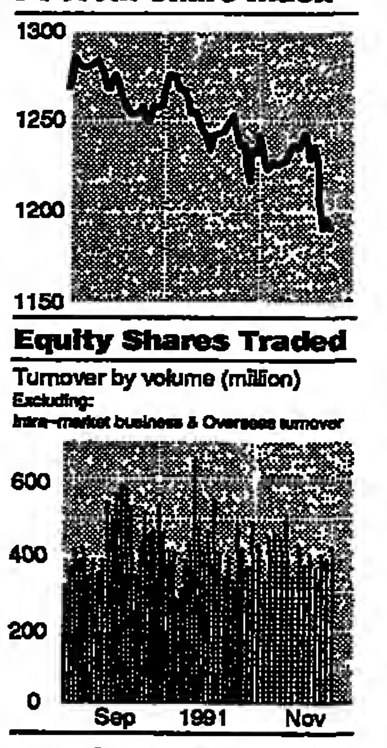
The broker now expects Sun to record a loss of £340m for next year, against a previous figure of £220m. Charterhouse now sees no scope for an increase in Sun's dividend for the period.

Charterhouse said it had studied Royal Insurance's results, issued last week, and adjusted its Sun Alliance numbers to take account of the company's high bias to the south of England, where claims related to house repossessions were higher than elsewhere in the UK.

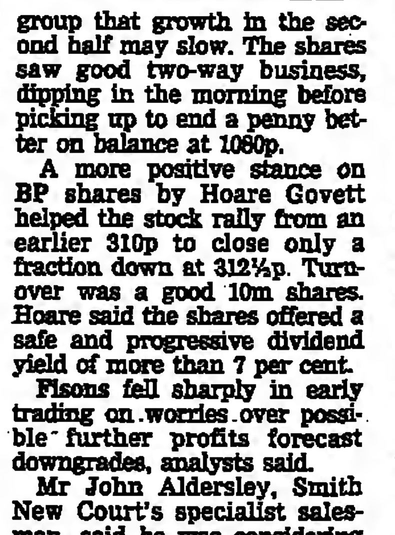
Sun Alliance shares dipped to 297p - the lowest level for over five years - before rallying to close a net 10 off at 303p. Other composites were also badly mauled, with Commercial Union 9 off at 459p, General Accident 16 weaker at 429p and Royal 8 cheaper at 285p. Guardian Royal was heavily traded (7.2m shares changed hands) and closed 3 easier at 136p.

Shares of drug companies trading in the US weakened on meeting some profit-taking. Glaxo headed the retreat after overnight selling in New York, falling a further 25 to 770p. SmithKline Beecham "A" shares lost 10 to 803p and Wellcome weakened 19 to 860p.

Increased interim profits from Rothmans International and a raised dividend were countered by a warning from the tobacco and luxury goods group that growth in the second half may slow. The shares saw good two-way business, dipping in the morning before picking up to end a penny better on balance at 1060p.



FT-A All-Share Index



Equity Shares Traded — Turnover by volume (million) Excluding: Intra-market business & Overseas turnover

A more positive stance on BP shares by Hoare Govett helped the stock rally from an earlier 310p to close only a fraction down at 312½p. Turnover was a good 10m shares. Hoare said the shares offered a safe and progressive dividend yield of more than 7 per cent.

Fisons fell sharply in early trading on worries over possible further profits forecast downgrades, analysts said.

Mr John Aldersley, Smith New Court's specialist salesman, said he was considering reducing his profits prediction for 1991 to £220m from £232m. "We are having a very close look at what might be necessary," he added. "The next few weeks' trading are crucial for Fisons, and in the worst case we may cut."

Forecasts range between £225m and £240m. The nervousness eased in the afternoon and the shares closed 4 off at 400p after being 13 down.

London International Group (LIG) slipped after the surgical glove and condom maker reported half-year profits at the bottom end of expectations. However, the shares picked up later to finish a net 3 better at 306p. Smith New Court argues that the stock has been overlooked and it remains a buy.

Courtaulds firmed 3 to 478p following raised interims on Wednesday. Hoare Govett argues that in spite of Courtaulds' outstanding performance this year it remains undervalued, but Nomura Research believes: "The shares have run too far."

There was a pause in the slide of Maxwell Communication Corporation shares, which held at 36p. Mirror Group Newspapers made fresh headway on bid speculation but settled in the afternoon with a gain of only a penny at 127p. UBS Phillips & Drew recommended MGN at its morning meeting. Mr Colin Tennant of UBS said: "People keep on talking about a possible bid, but even without one the shares are undervalued on fundamentals."

Arjo Wiggins Appleton rose sharply on takeover talk after a share and bond swap bid by Saint Louis for the 58.58 per cent of the Arjomari-Prioux shares it does not already own, paper analysts said. Arjomari-Prioux, Saint Louis and Worms et Cie own 39 per cent of Arjo Wiggins. The shares were up 25 at one stage before backtracking to close 5 up on the day at 259p. Turnover came to 4.6m.

New-time buying on expectations of encouraging full-year figures on December 2 spurred Airtours ahead 26 to 854p.

Sportswear retailer Black Leisure climbed 13 to 130p after a buyer of 500,000 shares moved into the market and the company met Scottish institutions yesterday.

Brewer Morland & Co jumped 17 to 380p following increased full-year profits and a raised dividend.

An in-depth note on Coats Viyella from a leading UK-based securities house helped the shares to hold steady at 176p. Barclays de Zoete Wedd has changed its recommendation advice from recommending holding to buying the stock.

Worries over the T & N final dividend were calmed after the chairman said his sale of about 80,000 shares was conducted for personal reasons. However, sentiment was further weakened by the company being included in a UBS Phillips & Drew research document on the list of companies forecast to cut their final dividend. At worst the shares were down 13 but they rallied to end 10 off at 115p on turnover of 5.8m.

LEP Group gave up another 4 to 10p, having touched 7p earlier as the market continued to digest Wednesday's profits warning and the chairman's resignation.

Tiphook continued to recover from recent falls and the shares gained 9 to 451p after a strong buy recommendation from company broker County NatWest. The broker said: "Nothing has changed except the price and the shares should be bought aggressively."

Trafalgar House gave up 8 to 215p after announcing that there were contractual difficulties over the North Sea rig which it is building for USM-quoted rig operator Midland & Scottish Resources (MSR). The latter plunged 22 to 30p following the announcement of the contractual dispute and a number of very bearish stories concerning the company's future circulated in the market.

Shares in takeover target Hawker Siddeley eased to 719p as talk circulated that the bid from BTR, down 4 at 377p, would be a close-run contest. The bid closes today. BTR said it spoke for 32.7 per cent of Hawker's shares. Turnover in the latter totalled 5.1m.

**MARKET REPORTERS:**
Peter John,
Joel Kibazo,
Steve Thompson.

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 21.

### NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (20). [illegible] INDUSTRIALS (4) Elan, Le Creusot, ML Labs., Serco, LEISURE (2) Airtours, LWT Cnv. Pfd., MOTORS (2) Evans Halshaw, Kwik-Fit, NEWSPAPERS (2) Johnston Press, Mirror, PAPERS (1) Shandwick, PROPERTY (1) Mountview Ests., TRANSPORT (1) BAA, TRUSTS (1) Abtrust Pfd. Inc.
NEW LOWS (48).
BRITISH FUNDS (2) Ex.13½pc 1992, Tr.12¾pc 1992, AMERICANS (2) BSN, Pennzoil, CANADIANS (1) Imperial Oil, BUILDINGS (6) Freeman, Graham Wood, [illegible] Paddington, T & N, Trafalgar House A, INSURANCE (3) GRE, General Accident, Sun Alliance, LEISURE (2) Kunick, Midlands Radio, MOTORS (1) European Motor, PAPERS (1) Ferry Pickering, PROPERTY (2) Dunloe House, Hambro Countrywide, London Sec. 8pc Prf., TEXTILES (1) Jerome, TRANSPORT (2) Eurotunnel Wrrnts., Lep, TRUSTS (3) French Prop., Sth. America Fd., TR Prop., OILS (3) Clyde Pet., Firstland Oil, Midland & Scottish Res., MINES (1) Waverley Mining Fin.

### TRADING VOLUME IN MAJOR STOCKS

| | |
|---|---|
| [illegible] | [illegible] |

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

### EQUITY FUTURES AND OPTIONS TRADING

VOLUME on LTOM rose to its highest level for more than a month although the mood, as in the rest of the market, was gloomy, writes Joel Kibazo.

Turnover of more than 45,000 contracts was boosted by two crosses, said to have reflected tax-related trades in stocks traded in the US as American Depositary Receipts.

The biggest trade of the day was in British Steel in which 8,000 contracts of the January 70 calls were crossed at 8½p. By the close, British Steel had traded 9,352 lots. A cross was also reported in Glaxo, which traded 1,440 contracts.

Asda was the second most active stock option as stories circulated that the company intended to restate its previous year's figures. It traded 4,200 lots.

This was followed by Thames Water, where 2,410 contracts changed hands. It benefited from switching into yield stocks in the cash market. Amstrad, British Gas and BTR were also busy.

In Footsie futures, a firm opening gave way to a listless session with sentiment continuing to be affected by further weakness in sterling.

December closed at 2482 and at a modest discount to its estimated fair value premium of about 21. Turnover reached 6,610 lots.

## LONDON SHARE SERVICE

### BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

| | |
|---|---|
| [illegible] | [illegible] |

### BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

| | |
|---|---|
| [illegible] | [illegible] |

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1991: 131.4 and for October 1991: 135.1.

### INT. BANK AND O'SEAS

| | |
|---|---|
| [illegible] | [illegible] |

### CORPORATION LOANS

| | |
|---|---|
| [illegible] | [illegible] |

### COMMONWEALTH & AFRICAN LOANS

| | |
|---|---|
| [illegible] | [illegible] |

### LOANS

Building Societies

Public Board and Ind.

| | |
|---|---|
| [illegible] | [illegible] |

### FOREIGN BONDS & RAILS

| | |
|---|---|
| [illegible] | [illegible] |

Continued on next page

# APPOINTMENTS

## A bite at global breakfasts

KELLOGG, the world's leading breakfast cereal manufacturer, has appointed Alan Harris to the newly created position of chairman's assistant for global marketing.

Harris, 37, is an Englishman who has been Kellogg's marketing man in the UK. He will move to the corporate headquarters at Battle Creek, Michigan, when Arny Langbo takes over as chairman and ceo at the beginning of 1992. Langbo had previously been in charge of the international side of the business - which now accounts for more than half of group sales.

In his current job Harris has been responsible for one of Kellogg's most important markets - the British put away 13lb of ready-to-eat cereal per head per year, 3lb more than the Americans, and the Irish munch their way through an additional 3lb each. As Kellogg puts it, "a tremendous breakfast-eating habit for a country".

But the cereal giant is facing intense competition, both in the US and in Europe, from General Mills, its big American rival, as well as from assorted private-label brands, which has prompted it to step up its already vast marketing spend.

Harris will also find plenty to occupy him in other parts of the globe. Kellogg hopes to be manufacturing in Latvia by 1993, and is also planning an assault on the Indian market. With Langbo also eyeing China's potential, one of the things Harris will be deciding is whether such a thing as a global marketing strategy is possible or indeed desirable.

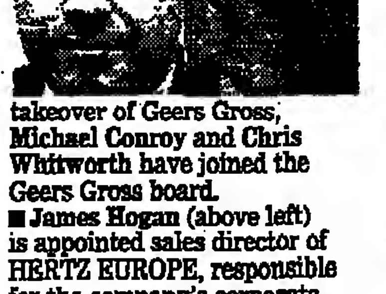
## Insurance moves

■ HIGH-POINT has appointed Peter Johnson, a non-executive director from last month, to be its chief executive from January. He was chairman of Thurgar Bardex until its acquisition by Heywood Williams in August. Robert Wharton, currently deputy chairman and chief executive, will continue as deputy chairman.

■ LADBROKE group announces that John Jackson, one of its non-executive directors, has been appointed non-executive deputy chairman in succession to the late Sir Kenneth Cork. There are two other deputy chairmen: Peter George and Jerry O'Mahony, both executive.

■ Mike Hawker, md of Freemans, is appointed a director of SEARS.

■ Following PUBLICIS' takeover of Geers Gross, Michael Conroy and Chris Whitworth have joined the Geers Gross board.



■ James Hogan (above left) is appointed sales director of HERTZ EUROPE, responsible for the company's corporate, travel industry and field sales activities in the UK and the rest of Europe. He is returning to London from Hertz Australia, where he was operations director.

■ Colin McLean (above right), md of Hertz Leasing for the past four years, has been appointed md of HIGHWAY VEHICLE LEASING. This move follows the death of Highway's co-founder, Peter Knox, last month.

■ Digby Hardy has resigned from the board of GRESHAM TELECOMPUTING.

■ Brian Boswell has been appointed group finance director of WHEWAY.

■ PORTSMOUTH AND SUNDERLAND NEWSPAPERS has appointed Stuart Bell, md of the company's northern subsidiaries, a director.

■ BAA has appointed Barry Gibson, recently commercial director at Heathrow, to the new post of group retailing director.

■ Tony Bushell is appointed a director of DUN & BRADSTREET.

■ DIXONS announces that Julie Nedza is appointed finance director of Supasnaps.

■ Paul Bradshaw, a consultant to J ROTHSCHILD ASSURANCE HOLDINGS, is joining the company as a director. He was instrumental in setting up Skandia Life, became its md in 1981 and resigned earlier this year.

■ Nigel Fenner-Fownes and John McNamara have been appointed directors of BAIN CLARKSON, part of the Inchcape group.

■ WORLD MARINE & GENERAL INSURANCE announces the appointment of its general manager, John McGarry, as a director.

■ BRITANNIA LIFE announces that David White has joined as assistant general manager (marketing) from Clydesdale Bank, and Ian Hillan, a director of Information Technology and Marketing at Freemans, has joined as general manager, business development.



### CHARITIES

The FT proposes to publish this survey on
**December 19th 1991.**
It will be of considerable interest to senior management, solicitors and wealthy individuals who read the FT. In addition to appearing in the paper this survey will be sent to the Chief Executives of the UK's Top 500 companies. If you want to reach this important audience, call
Jessica Perry
on 071 873 4611
or fax 071 873 3062

*Data source: BMRC 1990*

**FT SURVEYS**

# LONDON SHARE SERVICE



## AMERICANS

| 1991 High | Low | Stock | Price £ | + or – | Div Gross | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| 34⅞ | 20⅞ | Abbott Laboratories | 32⅞ | –⅛ | $1.00 | – | 1.7 |
| 385p | 218p | Allegheny & W 1c | 223p | +3 | 30c | – | 7.6 |
| 10⅛ | 667p | Amdahl 5c | 732p | –28 | 10c | – | 0.8 |
| 42⅛ | 25⅞ | Amer. Cyanamid $5 | 31⅛ | +⅛ | $1.50 | – | 2.7 |
| 17⅜ | 9½ | Amer. Express 60c | 10⅞ | –⅛ | $1.00 | – | 5.4 |
| 24½ | 15⅛ | American T. & T. $1 | 20⅞ | +⅛ | $1.32 | – | 3.6 |
| 38⅞ | 32½ | Ameritech $1 | 33½ | ..... | $3.40 | – | 5.7 |
| 26⅞ | 12⅞ | BankAmerica $1⅝ | 19⅞ | –⅛ | $1.20 | – | 3.4 |
| 38⅞ | 20⅛ | Bankers N.Y. $1 | 34⅛ | –⅛ | $1.52 | – | 8.0 |
| 30½ | 24⅛ | Bell Atlantic $1 | 25⅛ | –⅛ | $2.52 | – | 5.6 |
| 31⅛ | 25 | BellSouth Corp | 26⅛ | +⅛ | $2.76 | – | 5.9 |
| 11⅛ | 6⅞ | Bethlehem Steel $8 | 6⅞ | ..... | 40c | – | 3.3 |
| 1839p | 1046p | Bowater Inc | 1116p | –6 | $1.20 | – | 6.0 |
| 54⅞ | 37⅞ | CPC Intnl. 25c | 45⅛ | +⅛ | $2.00 | – | 2.5 |
| 930p | 420p | California Engy | 644p | ..... |  | – | – |
| 50 | 28⅛ | Campbell Soup 15c | 40⅛ | –1⅞ | $1.40 | – | 2.0 |
| 12⅛ | 5⅞ | Chase Manhattan $12½ | 9⅞ | +⅛ | $1.20 | – | 7.3 |
| 9⅞ | 5⅛ | Chrysler $6¼ | 6⅞ | +⅛ | 60c | – | 5.2 |
| 10⅞ | 5⅞ | Citicorp $1 | 5⅞ | –⅛ |  | – | – |
| 26⅝ | 21⅞ | Colgate-Palmolive $1 | 22⅞ | +⅛ | $1.06 | – | 2.7 |
| 928p | 436p | Cont'l Bank Corp $4 | 537p | –7 | 60c | – | 6.3 |
| 21⅝ | 13⅞ | Dana Corp. $1 | 14⅞ | +⅛ | $1.60 | – | 6.0 |
| 1262p | 203p | Data General | 830p | –13 |  | – | – |
| 25⅝ | 12⅞ | Dial Crop. $1.5 | 23⅞ | +⅛ | $1.40 | – | 3.3 |
| 29⅝ | 20⅞ | Dun & Bradstreet $1 | 26⅛ | +⅛ | $2.16 | – | 4.6 |
| 40 | 24⅛ | Eaton Corpn 50c | 31⅛ | –1 | $2.20 | – | 4.0 |
| 8½ | 5½ | Echlin Inc. | 6⅛ | –⅛ | 70c | – | 6.3 |
| 20⅛ | 14⅞ | FPL Group 1c | 19⅞ | +⅛ | $2.40 | – | 6.9 |
| 30⅞ | 17⅞ | Fluor Corp 62½pc | 28⅞ | ..... | 32c | – | 0.9 |
| 23⅛ | 13⅛ | Ford Motor $1 | 13⅞ | –⅛ | $1.60 | – | 4.1 |
| 46⅞ | 28⅞ | Gen. Elect. 63c | 37⅞ | –⅛ | $2.04 | – | 3.1 |
| 566p | 270p | General Host Corp $1 | 397p | ..... | 34c | – | 5.1 |
| 45⅞ | 20⅞ | Gillette $1 | 23⅞ | +⅛ | 62c | – | 1.5 |
| 20⅞ | 794p | Hasbro Inc 50c | 18⅞ | –⅛ | 24c | – | 0.7 |
| 38½ | 21⅛ | Honeywell $1½ | 32⅛ | –⅛ | $1.65 | – | 2.9 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## CANADIANS

[illegible]

## BANKS, HP & LEASING

[illegible]

### Hire Purchase, Leasing, etc.

[illegible]

## BEERS, WINES & SPIRITS

[illegible]

## BUILDING, TIMBER, ROADS

[illegible]

## BUILDING, TIMBER, ROADS — Contd

[illegible]

## CHEMICALS, PLASTICS

[illegible]

## DRAPERY AND STORES

[illegible]

## DRAPERY AND STORES — Contd

[illegible]

## ELECTRICALS

[illegible]

## ELECTRICITY

[illegible]

## ENGINEERING

[illegible]

## FOOD, GROCERIES, ETC

[illegible]

## HOTELS AND CATERERS

[illegible]

## INDUSTRIALS (Miscel.)

[illegible]

## INDUSTRIALS (Miscel.) — Contd

[illegible]

## INDUSTRIALS (Miscel.) — Contd.

[illegible]

## INSURANCES

[illegible]

## LEISURE

[illegible]

# LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain your free Share Code Booklet ring 071-925-2128

## LEISURE—Contd

## MOTORS, AIRCRAFT TRADES

### Commercial Vehicles

### Components

### Garages and Distributors

## NEWSPAPERS, PUBLISHERS

## PAPER, PRINTING, ADVERTISING

## PROPERTY

## PROPERTY—Contd

## SHOES AND LEATHER

## SOUTH AFRICANS

## TEXTILES

## TOBACCOS

## TRANSPORT

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS—Contd

Net asset values supplied by County NatWest Wood Mackenzie as a guide only.

## FINANCE, LAND, ETC

## FINANCE, LAND, ETC—Contd

## WATER

## OIL AND GAS

## PLANTATIONS

### Rubbers, Palm Oil

### Teas

## MINES

### Central Rand

### Eastern Rand

### Far West Rand

### O.F.S.

### Diamond and Platinum

### Central African

### Finance

## MINES—Contd

### Australians

### Tins

### Miscellaneous

### NOTES

... for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

| | | |
|---|---|---|
| Craig & Rose £1 | 625xd | ...... |
| Finlay Pkg. 5p | 45 | ...... |
| Holt (Jos) 25p | 2040 | ...... |
| Helton Hldgs. | 36 | ...... |
| IRG | 123½ | ...... |
| United Drug | 170 | ...... |

### IRISH

| | | |
|---|---|---|
| Cap 8½% Ln 2010 | £96¼ | ...... |
| 9pc Cap Ln 1996 | £98¾ | +⅛ |
| Fin. 13% 97/02 | £114½ | ...... |
| Arnotts | 180xd | ...... |

## TRADITIONAL OPTIONS

3-month call rates

### Industrials

| | p |
|---|---|
| Allied-Lyons | 50 |
| Amstrad | 6 |
| Astec (BSR) | 5 |
| BAT | 55 |
| BOC Grp | 48 |
| BTR | 33 |
| Barclays | 34 |
| Blue Circle | 28 |
| Boots | 33 |
| Bowaters | 55 |
| Brit Aerospace | 35 |
| British Steel | 10 |
| Brit. Telecom | 33 |
| Cadburys | 35 |
| Charter Cons | 42 |
| Comm Union | 40 |
| Courtaulds | 38 |
| Eurotunnel | 50 |
| P & O Dfd | 41 |
| Racal Elect | 6 |
| RHM | 23 |
| Rank Org Ord | 55 |
| Ratners | 12 |
| Reed Intnl | 35 |
| Sears | 8½ |
| SmKl Beecham A | 53 |
| TI | 39 |
| TSB | 11 |
| Tesco | 21 |
| Thorn EMI | 65 |
| T&N | 14 |
| Unilever | 68 |
| Vickers | 16 |
| Wellcome | 60 |

### Property

| | |
|---|---|
| Brit Land | 27 |
| Control Secs | 2 |
| Land Securities | 41 |
| MEPC | 42 |

### Oils

### Mines

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

# FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

## AUTHORISED UNIT TRUSTS

## Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

**INITIAL CHARGE:** Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

**CANCELLATION PRICE:** The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

**TIME:** The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

**HISTORIC PRICING:** The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

**FORWARD PRICING:** The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

**SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071 - 379 - 0444.

# FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

Sovereign Unit Tst Mngrs Ltd (1000)F

Standard Chartered Equitor (1200)F

Standard Life Tst Mgmt Ltd (0629)H

Stewart Ivory Unit Tst Mgrs Ltd (1000)H

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

Swiss Life Unit Trust Man Co Ltd (1200)F

TSB Unit Trusts (1200)H

Target Trust Mngrs Ltd (1200)F

Templeton Unit Trust Managers Ltd (1200)F

Thornton Unit Managers Ltd (1000)F

Three Counties Asset Mngmt Ltd (1430)H

Timberlake Trust Mngrs Ltd (0900)F

Trades Union Unit Tst Mngrs Ltd (1200)H

United Charities Unit Trusts (1000)H

Waverley Unit Tst Mngmt Ltd (1000)F

Whittingdale Unit Tst Mngmt Ltd (0830)F

Woolwich Unit Trust Managers Ltd (1000)H

## OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charities/Charishare Ltd (1000)F

CAFINVEST-Charities Aid Foundation

COIF-Charities Official Inv Fds

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Investors Ltd

Lazard Brothers & Co. Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

Morgan Grenfell Unit Trust Managers Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd

Scottish Amicable Trustee Reserved UT Mngt

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

## INSURANCES

Abbey Life Assurance Co Ltd

Aetna Life Assurance Co Ltd

AEGON Life Assurance Co (UK) Ltd

AEtna Life Insurance Co Ltd (z)

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Ltd

Britannia Life Assurance

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd (z)

Century Life Plc

Citibank Life

City of Westminster Assurance (z)

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Consolidated Life Assurance Co Ltd

Cornhill Insurance PLC

Crown Financial Management Ltd

Eagle Star Life Assurance Co Ltd

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Equity & Law

Eurolife Assurance Company Ltd

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident (z)

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration(z)

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Ltd

Lancashire & Yorkshire Assce Society

Laurentian Life Plc

Legal & General

Legal & General - Contd.

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group (z)

M & G Life and M & G Pensions

MGM Assurance (z)

Manchester Unity Assurance

Manulife Group

Manulife Group - Contd.

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

Continued on next page

# FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **N & P Life Assurance Ltd** | | | | |
| 6-7 Bedford Row, London, WC1R 4UJ 071-430 2348 | | | | |
| Life Managed Fd | 104.6 | 110.1 | .... | – |
| Pension Managed Fd | 102.3 | 107.7 | .... | – |
| Life Deposit Fd | 110.7 | 116.6 | .... | – |
| Pension Deposit Fd | 117.5 | 123.6 | .... | – |

For National Fin see Target Life

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **National Mutual Life** | | | | |
| The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422 | | | | |
| Forwarder Pension Fund | | | | |
| Managed | 163.9 | 172.6 | .... | – |
| UK Equity | 171.9 | 181.0 | .... | – |
| Overseas Equity | 130.8 | 137.7 | .... | – |
| Fixed Interest | 155.5 | 163.7 | – | – |
| Property | 129.2 | 136.0 | .... | – |
| Index Linked | 152.6 | 160.7 | .... | – |
| Deposit | 163.7 | 172.4 | .... | – |
| With Profits IB | 134.2 | 141.4 | .... | – |

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **National Provident Institution** | | | | |
| 48 Gracechurch St, London EC3P 3HH 071-623 4200 | | | | |
| Managed | 345.9 | 364.2 | -0.9 | – |
| UK Equity | 433.4 | 456.3 | -2.6 | – |
| Overseas Eq | 330.6 | 348.1 | +1.1 | – |
| American | 276.9 | 291.5 | +0.9 | – |
| Far East | 355.7 | 374.5 | +1.1 | – |
| Property | 194.1 | 204.4 | +0.1 | – |
| Fixed Int | 271.7 | 286.0 | -0.3 | – |
| Indexed Gilt | 162.5 | 171.1 | – | – |
| Deposit | 187.8 | 197.7 | .... | – |
| With Profit | 104.9 | 110.5 | +0.1 | – |
| Pension Fund Income Units | | | | |
| Managed | 498.9 | 525.2 | -1.4 | – |
| UK Equity | 587.2 | 618.2 | -3.3 | – |
| Overseas Eq | 558.2 | 587.6 | +1.0 | – |
| Americas | 346.6 | 364.9 | -0.8 | – |
| Far East | 580.2 | 610.8 | +1.6 | – |
| Property | 247.6 | 260.7 | +0.1 | – |
| Fixed Int | 338.4 | 356.3 | -0.5 | – |
| Indexed Gilt | 177.5 | 186.9 | +0.3 | – |
| Deposit | 266.2 | 280.3 | .... | – |
| NPI Pensions Management Ltd | | | | |
| Managed Fund | 1118.6 | 1144.9 | .... | – |

Prices November 1 Next dealing December 2

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Norwich Union Asset Management Ltd** | | | | |
| PO Box 140, Norwich NR3 1PP 0603 622200 | | | | |
| NUAM Funds | | | | |
| Managed Fund | 71.0 | 74.7 | -0.3 | – |
| Spec Market Mngd Fund | 69.9 | 73.5 | -0.3 | – |
| Equity Fund | 78.7 | 82.8 | -0.4 | – |

[illegible]

## OFFSHORE INSURANCES

[illegible]

## MANAGEMENT SERVICES

[illegible]

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

[illegible]

### CANADA (SIB RECOGNISED)

[illegible]

### GUERNSEY (SIB RECOGNISED)

[illegible]

### GUERNSEY (REGULATED)

[illegible]

### IRELAND (SIB RECOGNISED)

[illegible]

### IRELAND (REGULATED)

[illegible]

# FT MANAGED FUNDS SERVICE

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## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)(**)

## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

## SWITZERLAND (SIB RECOGNISED)

## OTHER OFFSHORE FUNDS

### MANAGED FUNDS NOTES

# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

# D-Mark shows its strength

THE D-Mark continued to flex its muscles, despite the news from the Bundesbank that it would not raise rates.

Most traders had been prepared for the news out of Germany, although they were already looking ahead to the next Bundesbank council meeting in two weeks' time. "We might have expected to see a setback in the D-Mark, but we didn't," said Dr Mark Austin, treasury economist at Hongkong Bank. "It just trundled along.

The German currency grew stronger against European currencies, most notably the pound, peseta and even the French franc.

The dollar also lost ground to the D-Mark, shaken by unexpectedly bad news on the US weekly jobless claims figures.

The US currency came under strong selling pressure following the announcement, dropping to DM1.5930. However, it recovered slightly to close in London at DM1.5955, compared with an opening price of DM1.6025.

Traders are still bearish on the US currency amid signs that the economy remains sluggish.

The weakening peseta dragged the floor for sterling in the EMS to DM2.8390 – its lowest level since Britain joined a year ago.

Dealers said the Bank of England was likely to feel more relaxed, and less likely to intervene to support sterling with the floor so low.

However, Mr Michael Feeny, senior dealer and market analyst at Sumitomo Bank, said the falling floor was cause for some concern. "It could draw sellers into the market because the scope is there for it to fall further," he said.

There were buyers in the market for sterling yesterday, however, among them Barclays Bank. "The pound had a bit of a dead cat bounce," said one dealer, who said profit-taking on long D-Mark positions had pushed sterling to a high of DM2.8810. However, sterling fell back to close at its lows of DM2.8675 in London.

Responsibility for the weak peseta was laid at the door of the Bank of Spain, which was rumoured to have sold the Spanish currency for D-Marks early in the day. However, the Bank was not prepared to see its currency freefall, dealers said, and had supported the peseta at 63.60 per D-Mark in the afternoon.

Some economists speculated that the Bank of Spain's efforts to weaken the peseta could well have been at the behest of the Bank of England – a method of backdoor support for the pound. The peseta's lead in the EMS narrowed yesterday, allowing sterling some relief on the grid.

"Until a week ago, the peseta had proved resistant to D-Mark strength," said Dr Austin. "But now it is leading the way down, with the pound not far behind."

The D-Mark enjoyed a slight strengthening against the French franc during the day. However, intervention from the Bank of France left the franc a touch stronger at 3.4164 per D-Mark.

### EMS EUROPEAN CURRENCY UNIT RATES

| | Ecu Central Rates | Currency Amounts Against Ecu Nov 21 | % Change from Central Rate | % Spread vs Weakest Currency | Divergence Indicator |
|---|---|---|---|---|---|
| Spanish Peseta | 133.631 | 129.448 | -3.13 | 5.03 | 54 |
| Belgian Franc | 42.4032 | 42.0268 | -0.89 | 2.65 | 43 |
| D-Mark | 2.05586 | 2.04048 | -0.75 | 2.51 | 48 |
| Dutch Guilder | 2.31643 | 2.29906 | -0.75 | 2.51 | 37 |
| Irish Punt | 0.767417 | 0.764063 | -0.44 | 2.19 | 20 |
| Italian Lira | 1538.24 | 1541.10 | 0.19 | 1.55 | -9 |
| French Franc | 6.89509 | 6.96877 | 1.07 | 0.67 | -28 |
| Danish Krone | 7.84195 | 7.93063 | 1.13 | 0.61 | -40 |
| Sterling | 0.696904 | 0.709049 | 1.74 | 0.00 | -34 |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

### £ IN NEW YORK

| Nov.21 | Latest | Previous Close |
|---|---|---|
| £ Spot | 1.7970 - 1.7980 | 1.7985 - 1.7995 |
| 1 month | 0.91 - 0.89pm | 0.87 - 0.86pm |
| 3 months | 2.49 - 2.46pm | 2.49 - 2.46pm |
| 12 months | 8.92 - 8.82pm | 8.70 - 8.62pm |

Forward premiums and discounts apply to the US dollar

### STERLING INDEX

### CURRENCY MOVEMENTS

### CURRENCY RATES

### OTHER CURRENCIES

| | £ | $ |
|---|---|---|
| Kuwait | 0.51065 - 0.51135 | 0.28450 - 0.28480 |
| Luxembourg | 59.10 - 59.20 | 32.85 - 32.95 |
| Malaysia | 4.9190 - 4.9270 | 2.7370 - 2.7390 |
| Mexico | 5404.45 - 5412.55 | 3060.00 - 3062.00 |
| N.Zealand | 3.1665 - 3.1700 | 1.7610 - 1.7630 |
| Saudi Ar. | 6.7585 - 6.8615 | 3.7495 - 3.7505 |
| Singapore | 2.9865 - 2.9935 | 1.6620 - 1.6640 |
| S.Af (Cm) | 5.0060 - 5.0180 | 2.7815 - 2.7835 |
| S.Af (Fn) | 5.3995 - 5.4820 | 3.0030 - 3.0490 |
| Taiwan | 6.58 - 46.60 | 25.90 - 26.00 |
| U.A.E. | 6.5425 - 6.6195 | 3.6715 - 3.6735 |

*Official rate. Floating rate £-2520.0 $-1400.0

### POUND SPOT - FORWARD AGAINST THE POUND

### DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

### EURO-CURRENCY INTEREST RATES

### EXCHANGE CROSS RATES

| Nov.21 | £ | $ | DM | Yen | F Fr. | S Fr. | N Fl. | Lira | C$ | B Fr. | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|
| £ | 1 | 1.797 | 2.867 | 232.7 | 9.800 | 2.547 | 3.232 | 2169 | 2.041 | 59.15 | 1.407 |
| $ | 0.556 | 1 | 1.595 | 129.5 | 5.454 | 1.417 | 1.799 | 1207 | 1.136 | 32.92 | 0.783 |
| DM | 0.349 | 0.627 | 1 | 81.16 | 3.418 | 0.888 | 1.127 | 756.5 | 0.712 | 20.63 | 0.491 |
| YEN | 4.297 | 7.722 | 12.32 | 1000. | 42.11 | 10.95 | 13.89 | 9321 | 8.771 | 254.2 | 6.046 |
| F Fr. | 1.020 | 1.834 | 2.926 | 237.4 | 10. | 2.599 | 3.298 | 2213 | 2.083 | 60.36 | 1.436 |
| S Fr. | 0.393 | 0.706 | 1.126 | 91.36 | 3.848 | 1 | 1.269 | 851.6 | 0.801 | 23.22 | 0.552 |
| N Fl. | 0.309 | 0.556 | 0.887 | 72.00 | 3.032 | 0.788 | 1 | 671.1 | 0.631 | 18.30 | 0.435 |
| Lira | 0.461 | 0.828 | 1.322 | 107.3 | 4.518 | 1.174 | 1.490 | 1000. | 0.941 | 27.27 | 0.649 |
| C$ | 0.490 | 0.880 | 1.405 | 114.0 | 4.802 | 1.248 | 1.584 | 1063 | 1 | 28.98 | 0.689 |
| B Fr. | 1.691 | 3.038 | 4.847 | 393.4 | 16.57 | 4.306 | 5.464 | 3667 | 3.451 | 100. | 2.379 |
| Ecu | 0.711 | 1.277 | 2.038 | 165.4 | 6.965 | 1.810 | 2.297 | 1542 | 1.451 | 42.04 | 1 |

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

## FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

PARIS

## MONEY MARKETS

# Overnight rates rise

UK MONEY market rates tightened yesterday, as the Bank of England took its time to stem the £1.45bn shortage it had forecast.

Overnight rates were squeezed as high as 13 per cent at one stage, although they fell back to 10¾-⅞ per cent by late afternoon. The offer price for most money up to one-year stood at the 10⅝ per cent level.

The key three-month interbank rate – which is often taken as a guide to expectations on UK bank base rates – was slightly higher at 10$\frac{11}{16}$ per cent.

"It is looking as if people expect the next move in rates to be up," said one senior dealer. "At the very least, 10.5 per cent is here to stay for a very long time."

**UK clearing bank base lending rate 10.5 per cent from September 4, 1991**

December short sterling fell to 89.37, confirming the pessimism over a rates cut before next year. Economists said the short sterling contract was likely to settle around the mid-to-low 40 level in the near future.

In early trading, the Bank of England injected £545m in the market through a bills purchase at a rate of 10$\frac{7}{16}$ per cent. During the course of the day, the central bank bought band one bank bills worth £6m, band one treasury bills worth £1m, and a further £584m in band one bank bills, all at 10⅜ per cent. Late assistance of £155m left a total shortfall of £145m in the market.

In Germany, call money rates were easier, with the expected drain on liquidity from November tax payments noticeable only by its absence. Call rates fell from Tuesday's 9.00/9.05 to 8.95/9.05 per cent, with most of the trade focused on 9 per cent.

Dealers were expecting the overnight rate to remain well below the Bundesbank's 9.25 per cent Lombard, and had already discounted a possible rise at the Bundesbank council meeting when trading began.

Liquidity levels were more than sufficient to keep call rates easy, they said, following two securities repurchase tenders worth DM3.5bn earlier this week.

In the US, the Federal Reserve refrained from any operations yesterday. The Federal Funds rate was about 4$\frac{11}{16}$ per cent in New York midsession trading, below the perceived target of 4¾ per cent.

Dealers were speculating that the Fed had bought notes from customer accounts on Monday, which would have negated the need for action yesterday.

### FT LONDON INTERBANK FIXING

### MONEY RATES

### LONDON MONEY RATES

### BASE LENDING RATES

| | | | | | |
|---|---|---|---|---|---|
| Citibank NA | 10.5 | Hongkong & Shanghai | 10.5 | Whiteaway Laidlaw | 10.5 |
| City Merchants Bank | 10.5 | Julian Hodge Bank | 10.5 | Yorkshire Bank | 10.5 |
| Clydesdale Bank | 10.5 | ● Leopold Joseph & Sons | 10.5 | ● Members of British Merchant Banking & Securities Houses Association. | |
| Co-operative Bank | 10.5 | Lloyds Bank | 10.5 | | |
| Coutts & Co | 10.5 | Meghraj Bank Ltd | 10.5 | | |



# MONEY MARKET FUNDS

## Money Market Trust Funds

## Money Market Bank Accounts

JOTTER PAD

# CROSSWORD

No.7,705 Set by GRIFFIN

ACROSS

1 Where, near beach, you'll find nuts and nudest (4,4)
5 Hung back, and without Lawrence, departed (6)
9 Eye specialist Brown goes round ICI after work (8)
10 As a horsewoman she was barely famous (6)
11 Use ruler to delete "outside" (6)
12 Offend retiring nurse behind army hut (5)
14 Musical teaching method fool can sit out of (5,3,2)
18 Way it moves slowly round, laughing uncontrollably .... (8)
22 .... could be threat for shopkeeper (6)
23 Suggested plan uses one riot gas to hold IRA back (8)
24 A foreign ringleader, French, is causing discontent (6)
25 Made tiny adjustment to mine (6)
26 In agreement take half of vessel (6)
27 It stops the girl turning a key in it (3,5)

DOWN

1 Floor of leading shop having toy soldiers in (6)
2 Colour of upright stone barrel (6)
3 Prepare by boiling for two months .... (6)
4 .... in order to get crush, an undiluted drink (4,6)
6 Lie about low-standing one being most spacious (8)
7 Shipping line (8)
8 When haggard are unfit to approach (4,4)
13 Scottish water engineers running dry, Clive intervenes (5,5)
15 Severe punishment taken by athletes? (4,4)
16 Mysterious oriental man embraces drunkard (8)
17 Left Nice after arranging to visit man with permit (8)
19 Lead to men dropping many a dog-end (6)
20 Difficult essay in Greek, initially (6)
21 Import value (6)

Solution to Puzzle No.7,704

# WORLD STOCK MARKETS

## INDICES

### NEW YORK DOW JONES

| | Nov 20 | Nov 19 | Nov 18 | Nov 15 | 1991 HIGH | 1991 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| ♦Industrials | 2930.01 | 2931.57 | 2972.72 | 2943.20 | 3077.15 (18/10) | 2470.30 (9/1) | 3077.15 (18/10/91) | 41.22 (2/7/32) |
| Home Bonds | 97.46 | 97.53 | 97.73 | 97.71 | 97.92 (12/11) | 91.30 (16/1) | 97.92 (12/11/91) | 54.99 (1/10/81) |
| Transport | 1202.73 | 1200.11 | 1224.59 | 1225.52 | 1287.56 (18/10) | 894.30 (7/1) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 213.82 | 213.63 | 217.14 | 215.95 | 220.89 (16/4) | 195.17 (10/7) | 236.23 (2/1/90) | 10.50 (8/4/32) |

♦Day's High 2973.61 (2960.20) Low 2912.12 (2883.72)

### STANDARD AND POOR'S

| | Nov 20 | Nov 19 | Nov 18 | Nov 15 | 1991 HIGH | 1991 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 378.53 | 379.42 | 385.24 | 382.62 | 397.41 (13/11) | 311.49 (9/1) | 397.41 (13/11/91) | 4.40 (1/6/32) |
| Industrials | 446.51 | 447.66 | 454.27 | 450.59 | 472.01 (29/8) | 364.90 (9/1) | 472.01 (29/8/91) | 3.62 (21/6/32) |
| Financial | 30.40 | 30.55 | 31.20 | 31.10 | 32.54 (13/11) | 21.96 (9/1) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 209.43 | 209.91 | 213.03 | 211.98 | 219.37 (13/11) | 170.97 (9/1) | 219.37 (13/11/91) | 4.46 (25/4/42) |
| Amex Mkt. Value | 374.81 | 374.25 | 379.47 | 380.91 | 392.37 (12/11) | 296.72 (14/1) | 397.03 (10/10/89) | 29.31 (9/12/72) |
| NASDAQ Composite | 526.12 | 523.47 | 534.73 | 531.29 | 556.17 (13/11) | 355.75 (14/1) | 556.17 (13/11/91) | 54.87 (31/10/72) |

| | Nov 15 | Nov 8 | Nov 1 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 3.10 | 3.05 | 3.03 | 4.01 |
| | Nov 13 | Nov 6 | Oct 30 | year ago (approx.) |
| S & P Industrial div. yield | 2.67 | 2.72 | 2.71 | 3.39 |
| S & P Indl. P/E ratio | 22.04 | 21.19 | 21.37 | 15.47 |

### NEW YORK ACTIVE STOCKS

| Wednesday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| Natl Medcl Ent | 4,236,400 | 13⅞ | - 1⅝ |
| Glaxo | 3,978,700 | 28½ | - ¼ |
| Amer T & T | 2,809,000 | 36⅝ | + ⅞ |
| Colgate | 2,779,300 | 40¼ | + ¼ |
| Bristol Myers | 2,092,000 | 81½ | + ⅜ |
| Ford Motor | 2,059,300 | 24⅞ | - ¾ |
| Gen Motors | 2,056,300 | 30⅝ | - 1 |
| Burlington Nthn | 1,988,400 | 36¼ | + ½ |
| GTE Corp | 1,914,300 | 31⅝ | - ⅛ |
| Philip Morris | 1,784,900 | 67⅝ | - ½ |

### TRADING ACTIVITY

| † Volume Millions | Nov 20 | Nov 19 | Nov 18 |
|---|---|---|---|
| New York SE | 192.670 | 241.350 | 238.170 |
| Amex | 12.569 | 19.630 | 17.261 |
| NASDAQ | 172.907 | 219.627 | (u) |
| **NYSE** | | | |
| Issues Traded | 2,154 | 2,176 | 2,164 |
| Rises | 772 | 344 | 727 |
| Falls | 888 | 1,430 | 952 |
| Unchanged | 494 | 402 | 485 |
| New Highs | 20 | 20 | 21 |
| New Lows | 39 | 80 | 56 |

### CANADA TORONTO

| | Nov 20 | Nov 19 | Nov 18 | Nov 15 | 1991 HIGH | 1991 LOW |
|---|---|---|---|---|---|---|
| Metals & Minerals | 2946.82 | 2947.26 | 2982.22 | 2999.24 | 3299.99 (18/7) | 2632.06 (9/1) |
| Composite | 3501.70 | 3515.32 | 3550.76 | 3535.48 | 3604.09 (12/11) | 3161.95 (15/1) |
| MONTREAL Portfolio | 1840.27 | 1845.31 | 1865.08 | 1856.00 | 1907.35 (12/11) | 1686.89 (9/1) |

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

| | Nov 21 | Nov 20 | Nov 19 | Nov 18 | 1991 HIGH | 1991 LOW |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ordinaries (1/1/80) | 1646.5 | 1632.7 | 1656.8 | 1646.5 | 1696.3 (8/11) | 1204.5 (16/1) |
| All Mining (1/1/80) | 644.6 | 641.0 | 649.3 | 641.8 | 707.2 (24/7) | 561.6 (16/1) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (30/12/84) | 419.24 | 416.06 | 416.84 | 410.92 | 534.81 (16/4) | 385.58 (4/11) |
| **BELGIUM** | | | | | | |
| BEL20 (1/1/91) | 1092.05 | 1098.59 | 1098.98 | 1100.47 | 1212.15 (17/4) | 917.59 (17/1) |
| **DENMARK** | | | | | | |
| Copenhagen SE (3/1/83) | 360.01 | 362.06 | 363.91 | 363.42 | 380.04 (2/8) | 302.26 (8/1) |
| **FINLAND** | | | | | | |
| HEX General (28/12/90) | 837.7 | 846.3 | 852.2 | 865.1 | 1186.9 (8/4) | 810.3 (14/11) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | 479.29 | 484.89 | 492.25 | 493.13 | 503.51 (15/11) | 394.88 (15/1) |
| CAC 40 (31/12/87) | 1766.02 | 1763.69 | 1765.09 | 1808.27 | 1887.29 (1/10) | 1425.26 (15/1) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 656.73 | (c) | 658.79 | 658.98 | 717.43 (17/6) | 570.48 (15/1) |
| Commerzbank (1/12/53) | 1854.7 | (c) | 1860.8 | 1860.7 | 2035.2 (31/5) | 1612.5 (15/1) |
| DAX (30/12/87) | 1598.10 | (c) | 1599.05 | 1611.93 | 1715.80 (31/6) | 1311.82 (16/1) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | 4234.57 | 4200.94 | 4261.23 | 4198.21 | 4271.34 (15/11) | 2984.01 (16/1) |
| **IRELAND** | | | | | | |
| ISEQ Overall (4/1/88) | 1394.65 | 1403.70 | 1398.75 | 1408.38 | 1520.65 (15/3) | 1114.86 (25/1) |
| **ITALY** | | | | | | |
| Banca Com. Ital. (1972) | 509.18 | 512.53 | 514.45 | 513.16 | 619.38 (3/6) | 486.26 (29/1) |
| **JAPAN** | | | | | | |
| Nikkei (16/5/49) | 23177.84 | 23199.86 | 23326.86 | 23400.12 | 27146.91 (18/3) | 21456.76 (19/8) |
| Tokyo SE (Topix) (4/1/68) | 1763.53 | 1762.79 | 1773.60 | 1770.65 | 2028.85 (18/3) | 1625.00 (17/1) |
| 2nd Section (4/1/68) | 2628.04 | 2653.35 | 2674.06 | 2672.52 | 3423.45 (10/5) | 2473.52 (24/1) |
| **MALAYSIA** | | | | | | |
| KLSE Composite (4/4/86) | 537.59 | 535.72 | 535.64 | 528.60 | 635.02 (29/5) | 470.41 (16/1) |
| **NETHERLANDS** | | | | | | |
| CBS Ttl.Rtn Gen.(End 1983) | 277.0 | 276.9 | 276.3 | 278.5 | 284.8 (5/6) | 221.4 (16/1) |
| CBS All Shr (End 1983) | 194.6 | 194.5 | 194.1 | 195.6 | 203.1 (5/6) | 162.3 (16/1) |
| **NORWAY** | | | | | | |
| Oslo SE (Indl) (2/1/83) | 652.75 | 651.08 | 640.32 | 660.75 | 793.53 (26/8) | 610.45 (21/1) |
| **PHILIPPINES** | | | | | | |
| Manila Comp (2/1/85) | 1108.42 | 1094.49 | 1102.31 | 1099.65 | 1183.40 (29/5) | 582.64 (18/1) |
| **SINGAPORE** | | | | | | |
| SES All-Singapore (2/4/75) | 394.67 | 392.84 | 392.44 | 388.98 | 422.43 (26/4) | 315.07 (16/1) |
| **SOUTH AFRICA** | | | | | | |
| JSE Gold (28/9/78) | 1162.0 | 1140.0 | 1113.0 | 1096.0 | 1469.0 (5/7) | 971.0 (25/2) |
| JSE Industrial (28/9/78) | 4176.0 | 4172.0 | 4195.0 | 4204.0 | 4364.0 (13/11) | 2829.0 (16/1) |
| **SOUTH KOREA**** | | | | | | |
| Korea Comp Ex. (4/1/80) | 664.68 | 668.13 | 656.01 | 663.75 | 763.10 (6/8) | 590.57 (22/6) |
| **SPAIN** | | | | | | |
| Madrid SE (30/12/85) | 245.88 | 246.98 | 245.62 | 246.09 | 289.22 (18/3) | 213.70 (14/1) |
| **SWEDEN** | | | | | | |
| Affarsvariden Gen. (1/2/37) | 953.6 | 951.3 | 951.8 | 952.0 | 1149.8 (11/7) | 808.4 (8/1) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Ind. (31/12/58) | 739.6 | 742.7 | 744.9 | 755.2 | 769.3 (14/11) | 598.4 (14/1) |
| SBC General (1/4/87) | 603.6 | 606.2 | 607.8 | 614.7 | 638.0 (31/5) | 487.1 (14/1) |
| **TAIWAN**** | | | | | | |
| Weighted Price (30/6/66) | 4496.89 | 4478.71 | 4480.94 | 4420.69 | 6305.22 (9/5) | 3316.26 (15/1) |
| **THAILAND** | | | | | | |
| Bangkok SET (30/4/75) | 669.30 | 677.01 | 678.62 | 653.46 | 908.13 (19/4) | 582.48 (16/1) |
| **WORLD** | | | | | | |
| M.S. Capital Intl.(1/1/70) ($) | 509.6* | 508.8 | 510.3 | 514.9 | 529.2 (17/4) | 439.1 (16/1) |

**Saturday November 16: Taiwan Weighted Price: 4442.46; Korea Comp Ex. 665.65.
& Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

## TOKYO - Most Active Stocks
Thursday, 21 November 1991

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Meiji Milk Prods | 18.3 | 1,210 | -10 |
| Okamoto | 11.9 | 1,170 | +160 |
| Toyo Ink | 6.3 | 850 | +6 |
| Japan Syn Rbbr | 5.3 | 695 | -14 |
| M'bishi Kakoki | 4.6 | 928 | +20 |
| Hitachi | 4.3 | 905 | -10 |
| Nippon Paint | 4.0 | 905 | -8 |
| Meiji Seika | 3.1 | 1,140 | -20 |
| NKK | 2.8 | 347 | -2 |
| Fujitsu | 2.3 | 843 | -15 |

3:00 pm prices November 21

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1991 High | 1991 Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 16¾ | 9¼ | AAR Corp | 0.48 | 3.8 | 17 | 330 | 13 | 12½ | 12¾ | +⅛ |
| 22⅞ | 14½ | A L Labs A | 0.16 | 0.7 | 24 | 647 | 21⅞ | 21¼ | 22¼ | +⅛ |
| 55¼ | 40⅞ | AMP Inc | 1.44 | 2.8 | 20 | 814 | 52⅛ | 51⅞ | 51⅞ | +⅛ |
| 68⅞ | 44¼ | AMR | | | | 113279 | 60 | 59⅛ | 60¼ | +⅞ |
| 2⅞ | 1 | ARX | | | 1 | 63 | 1⅛ | 1⅛ | 1⅛ | |
| 56 | 41½ | ASA x | 3.00 | 5.9 | | 141572 | 48¾ | 48 | 50½ | 42½ |
| 61⅞ | 38¼ | Abbott Lab | 1.00 | 1.7 | | 243089 | 59 | 57½ | 59¼ | +1¼ |
| 14⅝ | 8⅞ | Abitibi Pr | 0.44 | 3.3 | 18 | 2 | 13½ | 13⅜ | 13⅜ | |
| 11⅛ | 10⅜ | ACM Gvt In x | 1.28 | 11.8 | | 575 | 11 | 10⅞ | 10⅞ | −⅛ |
| 9⅞ | 8¼ | ACM GvOpp x | 1.01 | 10.4 | | 100 | 9⅝ | 9½ | 9¾ | +⅛ |
| 9½ | 8¼ | ACM Gvt Sp | 1.01 | 11.1 | | 316 | 9¼ | 9⅛ | 9⅛ | −⅛ |
| 11 | 9⅞ | ACM Gvt Sc | 1.28 | 11.8 | | 431 | 10⅞ | 10½ | 10⅝ | |
| 9 | 7⅝ | ACM Man x | 1.01 | 11.6 | | 756 | 8⅝ | 8½ | 8¾ | +¼ |
| 12⅞ | 11½ | ACM Managd x | 1.35 | 10.9 | | 761 | 12⅞ | 12⅞ | 12⅞ | −⅛ |
| 7½ | 4¾ | Acme Cleve | 0.40 | 6.5 | 16 | 41 | 6⅛ | 6 | 6⅛ | +⅛ |
| 5 | 3⅞ | Acme Elect | | | 9 | 11 | 5 | 4⅞ | 4⅞ | |
| 40 | 22⅞ | Acuson | | | | 211182 | 34 | 33⅝ | 33⅞ | −⅛ |
| 20⅛ | 14¼ | Adams Expr x | 5.06 | 27.8 | 0 | 66 | 18⅞ | 18⅞ | 18¼ | −⅛ |
| 20⅛ | 17½ | Adobe12Pf | 2.40 | 12.7 | | 12 | 18⅞ | 18⅞ | 18⅞ | |
| 9¼ | 6⅞ | Adobe Res | | | 10 | 18 | 7 | 6⅞ | 6⅞ | −⅛ |
| 38⅞ | 18 | Ad Micro | | | | 10 | 38⅝ | 36⅛ | 36⅞ | |
| 14¼ | 4⅞ | Ad Micro P | 3.00 | 22.8 | | 858445 | 12⅞ | 12½ | 13⅛ | +⅝ |
| 5⅛ | 2¼ | Advest Grp | 0.18 | 3.8 | 6 | 120 | 4¼ | 4¼ | 4⅞ | +⅛ |
| 46⅛ | 31⅞ | Aetna Lf | 2.76 | 7.3 | | 71309 | 38⅞ | 37⅝ | 37⅞ | +⅛ |
| 10⅝ | 6⅝ | AHI A x | 0.24 | 3.0 | | 731954 | 8⅛ | 7⅞ | 8⅛ | +⅛ |
| 20⅞ | 12 | Ahmanson | 0.88 | 6.3 | | 63700 | 15 | 14⅞ | 13⅞ | −½ |
| 18⅞ | 2⅞ | Aileen Inc | | | 17 | 296 | 16⅞ | 15⅞ | 18⅞ | +⅞ |
| 74⅛ | 51⅞ | Air Pr Chm | 1.56 | 2.3 | 15 | 718 | 69 | 68¼ | 67⅛ | −⅛ |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

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- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

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Continued on next page

# NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

| 1991 High | 1991 Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 86 | 35¼ | Xerox x | 3.00 | 4.8 | 59 | 979 | 62½ | 61⅛ | 63 | +½ |
| 51⅛ | 43⅛ | Xerox4.125 x | | | | z100 | 50⅞ | 50⅞ | 51 | +⅛ |
| 25⅛ | 14⅛ | Xtra 1.94 x | | | | 12 | 23 | 23 | 23 | |
| 29¾ | 14¼ | Xtra Corp x | 0.72 | 2.7 | 89 | 11 | 27 | 26¾ | 26⅛ | −¼ |
| 27⅞ | 21¾ | Yankee Egy | 1.60 | 6.0 | 12 | 26 | 27 | 26⅝ | 26¾ | −⅛ |
| 1½ | ⅜ | Zapata | | | | 11561 | ⅝ | d½ | ½ | |
| 9⅞ | 8⅛ | ZenithElec | | | 2 | 296 | 8⅛ | 8⅝ | 8⅞ | +⅛ |
| 18½ | 12 | Zenith Nat | 1.00 | 6.6 | 22 | 3 | 15¼ | 15⅛ | 15⅛ | |
| 8⅞ | 4½ | Zenix Inc x | 0.84 | 14.0 | | 133 | 6⅛ | 6⅛ | 6 | −⅛ |
| 15⅛ | 10⅞ | Zero Corp | 0.40 | 3.6 | 14 | 154 | 11⅝ | 11½ | 11⅛ | −⅞ |
| 41⅞ | 29½ | Zurn Ind x | 0.86 | 2.5 | 14 | 162 | 34⅛ | 33⅞ | 34⅝ | +⅞ |
| 13½ | 10⅛ | Zweig Fund | 1.16 | 9.1 | | 686 | 12¼ | 12½ | 12⅞ | +⅛ |
| 10½ | 8½ | Zweig Totl | 0.86 | 9.5 | | 638 | 10¼ | 10⅛ | 10⅛ | |

*Price data supplied by Telekurs.*

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# AMEX COMPOSITE PRICES

3:00 pm prices November 21



# NASDAQ NATIONAL MARKET

3:00 pm prices November 21

- X - Y - Z -

| Stock | Div. | P/E | Sls 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| Xilinx | | 27 | 4309 | 25 | 23½ | 24⅝ | +⅛ |
| XL Data | | 34 | 28 | 11 | 10⅝ | 11⅛ | +½ |
| Xoma Corp | | 45 | 2093 | 19¼ | 18 | 18¼ | |
| Yellow Fr | 0.94 | 89 | 1443 | 26⅞ | 26¼ | 26⅞ | +⅛ |
| York Rsch | | 58 | 1634 | 8⅜ | 7¼ | 7 | −⅞ |
| ZionsUtah | 1.44 | 9 | 9 | 45¼ | 44½ | 44 | −½ |

FINANCIAL TIMES
Friday November 22 1991

## AMERICA

# Dow falls on big rise in November jobless data

### Wall Street

A much bigger than expected rise in early November jobless claims unnerved investors yesterday, leaving share prices lower by midsession, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was down 8.72 at 2,921.29. The more broadly based Standard & Poor's 500 was also slightly easier, down 0.71 at 377.82 at 1 pm, while the Nasdaq composite of over-the-counter stocks outperformed all the other indices, rising 1.70 to 527.82. Turnover on the NYSE was heavy, with 113m shares changing hands by 1 pm. Declines outpaced rises by 821 to 667.

The 39,000 increase in the latest initial unemployment insurance claims was an unwelcome reminder of the depressed state of the job market, and the fragility of the economic recovery. The rise was well above forecasts.

The stock market initially held its ground, primarily because the jobs data boosted hopes that continued weakness in the economy might prompt further monetary easing from the Federal Reserve or a fiscal growth package from the White House and Congress. After three hours of dithering, however, prices turned lower in early afternoon trading as sellers gained the upper hand, with a sudden jump in long-term bond yields deepening the market's gloom.

The most actively traded stock was Global Yield, which dropped $⅛ to $7⅞ in turnover of 1.3m shares after the closed-end fund said it would have to pass its dividend in the fourth quarter because of currency losses and tax requirements.

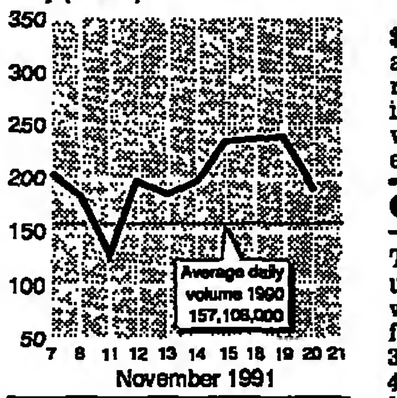
Coca-Cola climbed $1⅛ to $68¾ in active trading on reports that the company had told analysts that their estimates of 20 per cent earnings growth next year were too low. Pepsico rose $⅜ to $29⅛ in sympathy.

Footwear stocks were in demand, with Nike climbing $1⅝ to $58⅝, Reebok adding $⅞ at $37⅞ and LA Gear firming $¼ to $11. There were no clear reasons for the gains, although investors might have been buying the stocks in anticipation of good Christmas sales of sports footwear.

On the over-the-counter market, Dell Computer rose $¾ to $22¾ on news of third quarter net income of 52 cents a share, above year-ago earnings of 34 cents a share and higher than market forecasts.

Electronic Arts rose $2⅜ to $33⅜ after an analyst at Donaldson, Lufkin & Jenrette raised his third quarter earnings estimate for the company, which develops and markets entertainment software.

### NYSE volume




### Canada

TORONTO stocks were unchanged at midday, trading within a narrow range after four nervous sessions. The TSE 300 composite index dropped 4.3 to 3,497.4. Declining issues led advances by 232 to 214 on volume of 15.2m shares valued at C$153m.

Golds dominated the most active list as bullion prices surged ahead, strengthened by plans to use gold as a collateral for G-7 loans. Among gold shares, Lac Minerals rose C$⅜ to C$10⅞, American Barrick firmed C$⅜ to C$28⅞, Placer Dome gained C$⅛ to C$13⅞ and Echo Bay Mines jumped C$⅜ to C$9⅜.

# Karachi ignores the global equity declines

### Pakistan's leading share market hit record highs this week, writes Farhan Bokhari

PAKISTAN's leading stock market, the Karachi Stock Exchange, kept up its bullish surge this week, reaching record highs in spite of a bearish trend on international markets.

The continued rise has also surprised market watchers for domestic reasons. The political focus in Pakistan has been on government attempts to improve the law and order situation in Karachi, and other parts of the Southern province of Sindh; in the past, this has deterred investors.

However, the KSE index set a record high of 2,842 on Tuesday. This followed a 198-point advance on Monday, the largest single-day rise this year, on news that a French bank was setting up a Pakistan Growth Fund. The index fell 73 to 2,769 on Wednesday but this was understandable, as investors were squaring their positions before the market closed for its weekly two-day break.

The rally on the KSE is being used as a symbol by the government, to demonstrate that its policies of privatisation and deregulation of government controls have received a good response from investors.

This month, the market's equity capitalisation reached R104bn (£2.4bn), up from R53.56bn a year ago when the KSE index was at 1,587. In response to questions about the positive trend on Karachi stocks, finance minister Mr Sartaj Aziz said: "Improved prospects for business since last year have improved the investment climate."

During the past year the government of Prime Minister Mr Nawaz Sharif has been trying to privatise state-owned factories, while also removing regulatory controls on existing and new investments. Mr Aziz says that the KSE rise has also resulted from the opening up of the stock market to foreign investors.

Citicorp floated a closed-end Pakistan fund of $22.6m in April this year. The fund, listed on the Hong Kong Stock Exchange, is designed to encourage foreign investment in emerging companies on the KSE. Then, only this week, it was announced that Crédit Lyonnais is launching a $25.75m open-end growth fund; this fund will also be listed on the Hong Kong Stock Exchange.

Some brokers believe that the stock market's rise has been helped by a drop in property prices. A network of co-operative finance companies had to be shut down this summer, when depositors tried to withdraw their money. The run on the companies began when some politicians claimed that the companies had virtually no liquid assets left since most of their assets were in real estate. Now, the government is trying to arrange the repayment of the depositors.

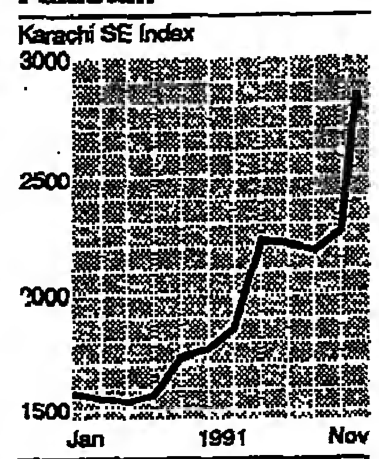
The drop in property prices has been caused by fears that the finance companies will have to sell their assets in the near future to raise money. Meanwhile, the government has reduced interest rates on another investment medium, bearer certificates, and a new tax has further lowered these. As a result, investors are finding it more profitable to invest in stocks.

Most businessmen and brokers, for now at least, expect the market to remain buoyant. Mr Amin Tai, a leading broker and former president of the KSE, says that public interest in the stock exchange has been growing, and that a new class of investors has emerged. The opening up of the market to foreign investors has also helped to increase confidence.

As for the effects of the law and order problems on the market's performance, many officials, including Mr Aziz, say that the KSE listings include companies located across the country, many hundreds of miles away. While they agree that a growing number of crimes in rural Sindh have deterred investors, they argue that the market has remained buoyant due to optimistic prospects for the companies located elsewhere in Pakistan.

However, some officials and brokers privately express concern that the KSE may not be able to sustain the fast upward rise. Says one leading broker: "The rise has been sudden. At some point it would need to be adjusted." But he adds that investors are unlikely to be deterred in the short term, and the market could continue to break new ground until the end of the year.

### Pakistan




## ASIA PACIFIC

# Nikkei extends losing streak to seventh day

### Tokyo

THE NIKKEI average extended its losing run to a seventh consecutive session yesterday, but closed only marginally lower after a volatile day, *writes Emiko Terazono in Tokyo.*

Low volume exaggerated share price movements on index-related activity. The Nikkei finished 22.02 easier at 23,177.84, after having firmed in the morning on bargain hunting to register the day's high of 23,378.50; arbitrage-related selling took it to the day's low of 22,997.80 in the afternoon.

Volume contracted from 300m to 270m shares. Domestic investors remained inactive, although some foreigners indulged in small-lot buying. Declining shares outnumbered advances by 556 to 400, with 191 issues unchanged, although the Topix index of all first section stocks gained a slight 0.74 on the session at 1,763.53. In London the ISE/Nikkei 50 index softened just 0.30 to 1,312.14.

Some investors found consolation in the easing of overnight call rates and bond yields. However, the high level of put options worried traders, who believed that holders of the options would try to push the index down so that they could exercise the contracts. Rumours that a speculative investor had been arrested also unnerved some short-term market participants.

Mr Nick Cant at Baring Securities added that some domestic investors were already becoming worried about next month's expiry of December futures contracts. High arbitrage positions are becoming the focus of concern as arbitrageurs with long cash positions against short futures positions may not roll over into March contracts.

The Tokyo Stock Exchange announced that holdings against December futures totalled Y1,500bn as of November 15. While the amount has declined on arbitrage unwinding, it remains at a high level. During the week ended November 15, Nomura was the most active arbitrageur, trading 24.5 per cent of the turnover.

High-technology stocks were sold on concern about the weakening economy in the US. Matsushita fell Y30 to a year's low of Y1,400 and Sony Y130 to Y4,580. Sony projected a 19 per cent year-on-year decline in consolidated pre-tax profits for the year to March 1992.

Hitachi was actively sold and lost Y10 to Y905, while Fujitsu, which projected a 29 per cent fall in its pre-tax profits for the current year, retreated Y15 to Y843.

Okamoto, the prophylactics manufacturer, surged Y160 to a peak for the year of Y1,170. Companies in this sector have been strong recently on growing calls for Aids prevention, although Japan Synthetic Rubber receded Y14 to Y686 on profit-taking.

In Osaka, the OSE average shed 32.14 to 25,164.71 in volume of 33.3m shares. Small-lot selling dragged issues down, with construction, textile and machinery issues weaker.

### Roundup

A STEADY performance on Wall Street overnight lifted the Pacific Rim yesterday, though several came off the day's highs. Bombay was closed for a holiday, and reopens today.

NEW ZEALAND made a broad recovery as nerves over the recent volatility on Wall Street eased. Telecom and Fletcher Challenge rose strongly. The NZSE-40 index closed just off its intraday high, ending 27.04 or 1.8 per cent to the good at 1,496.50. Turnover expanded to NZ$30.5m from NZ$25.6m.

Telecom recovered 5 cents to NZ$2.48 on turnover of 840,000 shares after falling for the previous six sessions. It is due to release its fiscal first-half results today. Fletcher Challenge added 10 cents at NZ$3.45 on turnover of 660,000 shares.

AUSTRALIA recouped some of its recent losses. The All Ordinaries index ended 13.9 up at 1,646.6 but after a day's high of 1,653.3. Turnover was steady at A$265m.

The banking sector was firmer after the release of generally pleasing results. Westpac Banking rose 11 cents to A$4.88 and National Australia Bank 15 cents to A$8.00. ANZ jumped 34 cents in heavy turnover to A$4.52.

TAIWAN advanced in active trading but early gains were trimmed. The weighted index put on 18.18 to 4,496.89 in heavy turnover of T$26bn (T$17.46bn). Food shares posted the day's sharpest gains while financials provided the only declining sector.

HONG KONG rebounded in moderate trading. The Hang Seng index gained 33.63 at 4,234.57, recouping about half of Wednesday's loss. Turnover rose to HK$1.65bn (HK$1.56bn).

Utilities enjoyed the session's biggest gains, followed by property counters.

SEOUL succumbed, but only just, to heavy selling pressure from investors who took profits after Wednesday's rise. The composite index was down 3.45 at 664.68 in turnover of Won187bn, after Won191.3bn.

News that the owners of the Hyundai Group had agreed to pay heavy tax evasion penalties after all failed to lift the market yesterday. On Wednesday they had said they would not pay the Won136bn fine.

KUALA LUMPUR and SINGAPORE both encountered bargain hunting. The KLSE composite index moved up 1.87 to 537.59 in volume of M$80.5m, against M$76.5m. The Straits Times Industrial index added 6.91 at 1,450.06 in turnover of S$105m, after S$108m.

MANILA was helped by Wall Street and a firm showing by the oil sector. The composite index put on 13.93 to 1,108.42 in turnover of 56m pesos.

BANGKOK was pushed lower by political uncertainty. The SET index dipped 7.71 to 669.30 in turnover of Bt3.79bn.

JAKARTA closed easier on local selling. The official index slipped 1.24 to 241.26.

### SOUTH AFRICA

FURTHER strength in golds led Johannesburg higher on the day, the overall index rising 15 to 3,462. While industrials were only 4 higher at 4,176, the all-gold index closed 22 higher at 1,162 with Vaal Reefs R3 higher at R208.

## EUROPE

# German decision to keep rates steady helps bourses

THE BUNDESBANK'S decision to leave interest rates unchanged probably helped Paris and Amsterdam more than its home market, *writes Our Markets Staff.*

FRANKFURT closed mixed since the interest rate decision was generally expected.

Banks picked up in the post-bourse but the stimulus was the G-7 news that loans to the USSR are to be frozen for a year. Postponing the problem of loan losses, this lifted Deutsche Bank to DM662 after an official close of DM657.50, up DM2.80, despite the view that it is suitably provisioned in this area.

The DAX index closed 0.96 lower at 1,598.10, effectively cancelling out the post-bourse and pre-holiday weakness on Tuesday afternoon. The FAZ index, calculated at midsession, fell 2.06 to 656.73. Volume fell from DM4.5bn to DM3.8bn.

PARIS concentrated on special situations. The CAC 40 index closed at 1,766.02, up 2.53, in turnover of FFr2bn after FFr2.5bn.

Trading in the paper products group Arjomari-Prioux was suspended at the opening before the announcement that the food group Saint Louis planned to buy in the rest of Arjomari's share capital. While the deal was expected to enhance Saint Louis's earnings per share, some analysts felt that it was fully valued at yesterday's close of FFr1,276, up FFr3.

Source Perrier rose FFr38 or 3.2 per cent to FFr1,229 in decent volume of 18,035 shares. Goldman Sachs published a favourable report on the mineral water group this week.

Printemps, the retailer, fell FFr39 to FFr859 with 22,650 shares traded on reports that Maus Frères of Switzerland only wants to sell part of its 42.2 per cent stake.

| FT-SE Eurotrack 100 - Nov 21 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Hourly changes | | | | | | | |
| Open | 10 am | 11 am | Noon | 1 pm | 2 pm | 3 pm | Close |
| 1072.01 | 1071.63 | 1072.71 | 1073.86 | 1074.15 | 1073.65 | 1071.44 | 1071.97 |
| Day's High 1074.75 | | | | Day's Low 1070.55 | | | |
| Nov 20 | Nov 19 | Nov 18 | Nov 15 | Nov 14 | | | |
| 1078.00† | 1075.11 | 1084.18 | 1109.27 | 1109.78 | | | |

Base value 1000 (26/10/90) † Partial

MILAN fell in a nervous session shortened by a lack of volume, amid fears that more brokers, including a leading name, were in financial difficulty. The Comit index fell 3.35 to 509.18 in turnover estimated at L75bn after L64bn.

The overall drop masked larger falls in individual shares. Eridania dropped L499 or 6.7 per cent to L6,950 as an influential broker advised investors that they might not emerge favourably from the restructuring announced last week. There were also fears that Eridania shareholders might be offered shares in Ferfin, and not Beghin-Say as originally thought.

Ras was one of gainers, adding L160 to L17,750. The stock has been recommended by Kleinwort Benson in the belief that the insurer is at the beginning of a cyclical upturn in earnings.

AMSTERDAM saw buying in the insurer Aegon ahead of its third quarter results today. The CBS Tendency index rose 0.4 to 90.7.

Aegon added Fl 3.60 to Fl 121.20. The market is expecting a profit rise of between 6 and 8 per cent. Amev closed Fl 2.60 higher at Fl 61.20.

ZURICH saw a SFr160 fall to SFr3,450 in Brown Boveri bearers, which topped the active list as the Credit Suisse index fell 3.0 to 476.0.

Wednesday's nine-month figures from Asea Brown Boveri were in line with expectations but dealers said that they also underlined the excessive optimism of some 1992 EPS estimates.

MADRID's general index closed 1.09 lower at 245.89. Tabacalera was one of few winners, rising Pta130 to Pta5,610. Brokers attributed this to foreign interest following presentations in London and Paris.

STOCKHOLM saw interest in blue chips as Merrill Lynch outlined the recovery potential in Swedish corporate earnings.

However, while Volvo B recovered SKr6 to SKr341, Ericsson B failed to sustain early gains and closed SKr3 lower at SKr108, as the Affärsvärlden General index rose 2.2 to 953.5.

OSLO featured a slight recovery in Den norske Bank, NKr1.3 higher at NKr6.8 as the all-share index rose 2.14 to 416.30.

HELSINKI fielded another banking scare as Kansallis-Osake-Pankki's free shares fell FM1.3 to FM18.5 with 57,000 traded.

The banking and finance index fell 2.6 per cent as the Hex general index posted its third consecutive fall of 8.6, or 1 per cent to 837.7. A senior KOP official denied market rumours that the bank had made losses as a result of last week's devaluation of the markka.

ISTANBUL paused for breath after its week-long rally. The 75-share index ended at 3,446.64, up 1.37.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | WEDNESDAY NOVEMBER 20 1991 | | | | | | | | TUESDAY NOVEMBER 19 1991 | | | | | DOLLAR INDEX | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Figures in parentheses show number of lines of stock | US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | 1991 High | 1991 Low | Year ago (approx) |
| Australia (69) | 155.01 | −1.5 | 127.96 | 127.13 | 129.15 | 130.73 | −1.3 | 4.63 | 157.35 | 129.86 | 129.10 | 131.10 | 132.50 | 160.31 | 112.74 | 125.41 |
| Austria (20) | 174.25 | +0.2 | 143.84 | 142.91 | 145.17 | 145.04 | +0.2 | 1.97 | 173.87 | 143.49 | 142.66 | 144.86 | 144.73 | 222.37 | 153.86 | 200.31 |
| Belgium (47) | 136.07 | −0.7 | 112.33 | 111.59 | 113.36 | 110.90 | −0.7 | 5.34 | 137.05 | 113.10 | 112.44 | 114.18 | 111.70 | 151.20 | 118.04 | 139.03 |
| Canada (115) | 139.49 | −1.0 | 115.15 | 114.40 | 116.21 | 114.74 | −0.4 | 3.24 | 140.92 | 116.30 | 115.62 | 117.40 | 115.16 | 144.28 | 126.49 | 124.72 |
| Denmark (37) | 261.95 | −0.4 | 216.24 | 214.85 | 218.24 | 221.69 | −0.5 | 1.60 | 263.03 | 217.07 | 215.82 | 219.14 | 222.70 | 270.56 | 217.74 | 252.41 |
| Finland (15) | 82.94 | −0.8 | 68.47 | 68.03 | 69.10 | 75.46 | −1.4 | 3.23 | 83.65 | 69.04 | 68.64 | 69.70 | 76.50 | 125.15 | 82.91 | 103.93 |
| France (109) | 142.28 | −0.3 | 117.45 | 116.68 | 118.52 | 122.25 | −0.2 | 3.63 | 142.67 | 117.74 | 117.05 | 118.86 | 122.48 | 152.26 | 119.11 | 139.84 |
| Germany (65) | 114.07 | +0.0 | 94.16 | 93.57 | 95.03 | 95.03 | +0.0 | 2.43 | 114.07 | 94.13 | 93.60 | 95.03 | 95.03 | 125.35 | 94.15 | 118.74 |
| Hong Kong (55) | 173.74 | −1.4 | 143.42 | 142.49 | 144.75 | 172.94 | −1.4 | 4.29 | 176.14 | 145.36 | 144.52 | 146.76 | 175.35 | 176.14 | 119.62 | 123.08 |
| Ireland (18) | 162.48 | −0.2 | 134.12 | 133.26 | 135.36 | 137.29 | +0.0 | 3.65 | 162.78 | 134.34 | 133.56 | 135.62 | 137.35 | 182.46 | 132.88 | 153.38 |
| Italy (77) | 71.92 | −0.4 | 59.37 | 58.99 | 59.92 | 65.01 | −0.4 | 3.57 | 72.24 | 59.62 | 59.27 | 60.18 | 65.25 | 88.23 | 64.76 | 79.48 |
| Japan (474) | 133.99 | −0.5 | 110.61 | 109.90 | 111.65 | 109.90 | −0.5 | 0.77 | 134.61 | 111.09 | 110.45 | 112.16 | 110.45 | 146.97 | 118.23 | 125.99 |
| Malaysia (68) | 205.02 | +0.0 | 169.24 | 168.15 | 170.81 | 216.16 | +0.1 | 2.87 | 204.96 | 169.15 | 168.16 | 170.76 | 215.94 | 247.78 | 189.18 | 195.88 |
| Mexico (17) | 1302.06 | −3.8 | 1074.85 | 1067.91 | 1084.80 | 4357.66 | −3.8 | 1.18 | 1352.81 | 1116.43 | 1109.98 | 1127.08 | 4527.50 | 1404.63 | 534.45 | 556.71 |
| Netherland (31) | 146.54 | +0.1 | 120.97 | 120.18 | 122.09 | 120.75 | +0.1 | 4.47 | 146.42 | 120.84 | 120.14 | 121.99 | 120.59 | 148.24 | 125.70 | 134.60 |
| New Zealand (14) | 47.23 | −1.5 | 38.99 | 38.74 | 39.35 | 44.29 | −1.6 | 6.28 | 47.97 | 39.59 | 39.36 | 39.96 | 45.03 | 54.64 | 41.18 | 49.97 |
| Norway (30) | 176.19 | +1.7 | 145.45 | 144.51 | 146.80 | 150.72 | +2.1 | 1.71 | 173.29 | 143.01 | 142.19 | 144.38 | 147.65 | 223.24 | 173.29 | 210.46 |
| Singapore (38) | 206.61 | +0.2 | 170.55 | 169.45 | 172.13 | 158.38 | +0.1 | 2.20 | 206.22 | 170.18 | 169.20 | 171.80 | 158.27 | 213.93 | 151.63 | 155.62 |
| South Africa (61) | 263.34 | −0.2 | 217.39 | 215.98 | 219.39 | 173.64 | −0.5 | 2.82 | 263.74 | 217.65 | 216.39 | 219.72 | 174.43 | 269.05 | 173.00 | 172.14 |
| Spain (53) | 149.19 | +0.6 | 123.16 | 122.37 | 124.30 | 114.72 | +0.8 | 4.80 | 148.36 | 122.44 | 121.73 | 123.60 | 113.85 | 171.12 | 131.51 | 148.28 |
| Sweden (25) | 172.19 | −0.2 | 142.14 | 141.23 | 143.46 | 149.25 | +0.0 | 2.99 | 172.51 | 142.37 | 141.55 | 143.73 | 149.27 | 204.12 | 146.60 | 161.59 |
| Switzerland (59) | 97.17 | −0.5 | 80.21 | 79.70 | 80.97 | 85.69 | −0.3 | 2.38 | 97.63 | 80.57 | 80.11 | 81.35 | 85.94 | 100.67 | 82.17 | 91.33 |
| United Kingdom (240) | 177.83 | +0.3 | 146.80 | 145.84 | 148.14 | 146.80 | +0.4 | 5.07 | 177.23 | 146.26 | 145.40 | 147.64 | 146.26 | 187.44 | 158.27 | 167.32 |
| USA (526) | 154.03 | −0.1 | 127.15 | 126.34 | 128.34 | 154.03 | −0.1 | 3.15 | 154.27 | 127.31 | 126.58 | 128.53 | 154.27 | 161.59 | 125.95 | 127.55 |
| Europe (826) | 141.79 | +0.1 | 117.05 | 116.29 | 118.13 | 118.33 | +0.1 | 4.08 | 141.70 | 116.94 | 116.26 | 118.06 | 118.19 | 151.52 | 125.50 | 138.51 |
| Nordic (107) | 178.51 | −0.1 | 147.36 | 146.41 | 148.73 | 147.44 | +0.0 | 2.19 | 178.70 | 147.47 | 146.62 | 148.88 | 147.47 | 200.81 | 155.55 | 175.40 |
| Pacific Basin (718) | 135.42 | −0.5 | 111.79 | 111.07 | 112.82 | 112.05 | −0.6 | 1.12 | 136.14 | 112.35 | 111.70 | 113.42 | 112.67 | 145.92 | 117.86 | 125.56 |
| Euro – Pacific (1544) | 138.29 | −0.3 | 114.16 | 113.41 | 115.21 | 115.34 | −0.3 | 2.33 | 138.69 | 114.46 | 113.78 | 115.54 | 115.66 | 147.66 | 121.29 | 131.18 |
| North America (641) | 153.05 | −0.2 | 126.34 | 125.54 | 127.53 | 151.39 | −0.2 | 3.15 | 153.35 | 126.56 | 125.84 | 127.79 | 151.83 | 160.44 | 125.91 | 127.28 |
| Europe Ex. UK (586) | 120.19 | −0.1 | 99.22 | 98.60 | 100.16 | 101.92 | −0.1 | 3.34 | 120.37 | 99.34 | 98.78 | 100.31 | 101.99 | 129.80 | 103.58 | 120.67 |
| Pacific Ex. Japan (244) | 149.47 | −1.1 | 123.39 | 122.61 | 124.54 | 132.03 | −1.1 | 4.19 | 151.19 | 124.77 | 124.07 | 125.98 | 133.47 | 153.19 | 111.40 | 119.86 |
| World Ex. US (1737) | 140.38 | −0.3 | 115.88 | 115.14 | 116.96 | 116.97 | −0.3 | 2.36 | 140.85 | 116.24 | 115.58 | 117.35 | 117.34 | 148.16 | 122.32 | 131.61 |
| World Ex. UK (2023) | 140.71 | −0.3 | 116.15 | 115.41 | 117.24 | 126.73 | −0.3 | 2.36 | 141.19 | 116.52 | 115.85 | 117.64 | 127.15 | 146.16 | 120.06 | 125.45 |
| World Ex. So. Af. (2202) | 143.14 | −0.3 | 118.16 | 117.41 | 119.26 | 128.25 | −0.3 | 2.64 | 143.52 | 118.45 | 117.77 | 119.59 | 128.57 | 148.66 | 122.92 | 128.91 |
| World Ex. Japan (1789) | 150.58 | −0.2 | 124.30 | 123.51 | 125.47 | 138.94 | −0.1 | 3.52 | 150.85 | 124.49 | 123.78 | 125.69 | 139.14 | 155.59 | 126.89 | 132.10 |
| The World Index (2263) | 143.94 | −0.3 | 118.82 | 118.06 | 119.93 | 128.65 | −0.3 | 2.64 | 144.33 | 119.11 | 118.42 | 120.25 | 128.98 | 149.37 | 123.28 | 129.17 |

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Latest prices were unavailable for this edition. German market closed November 20.

FINANCIAL TIMES SURVEY

# WATER INDUSTRY

SECTION IV

Friday November 22 1991

The water industry's £28bn capital spending programme is well up to schedule. Thames Water, largest of the 10 companies, is spending £250m on the London water ring main

## Issues outstanding

**Although most of the turbulence of privatisation has subsided, a range of issues is causing concern within the industry. Foremost among these are relations with its own regulators and the poor public image which the water industry still has. Richard Evans reports**

ON the surface, the UK water industry seems to be going through a relatively smooth patch following the turbulence of privatisation two years ago and initial adjustment to the harsher environment of the private sector.

The 10 regional water and sewerage companies, and the 26 water-only companies, appear to be coming to terms with the new regime and the £28bn capital spending programme is well on schedule. The sector has also been well received by the City of London as a significant part of the stock exchange scene.

But appearances can be deceptive and any impression of placidity would be misleading. A range of issues is causing concern within the industry. Foremost among these are relations with the industry's regulators, particularly Mr Ian Byatt, director-general of Ofwat and Lord Crickhowell, chairman of the National Rivers Authority, and the poor public image the industry continues to have, which water chiefs believe to be a travesty of the truth.

The relationship between a privatised monopoly providing an essential service and its regulators was never going to be easy, and regulation seems set to dominate the industry's politics for the foreseeable future.

In the first year after flotation, most of the criticism within the industry was directed at Lord Crickhowell, a tough, politically astute former Conservative cabinet minister who was pushing hard for an accelerated environmental improvement programme in addition to that already recognised as necessary at the time of privatisation. The open-ended additional costs were regarded as unacceptable by water chiefs.

Mr Byatt, a former senior Treasury adviser, took longer to make his presence felt, but in the past year he has drenched the industry with demands for information and warnings about excessive profits in his role as protector of the water consumer.

Mr Byatt's primary functions are to ensure that the companies operate efficiently and that customers get value for money. He has recently been playing a poker game on their behalf, threatening and bluffing most of the companies into cutting back on their charges.

Through a series of letters and statements, Mr Byatt has persuaded the companies to reduce by a sixth or an aggregate £40m the level of charges to be introduced next year.

He did it by warning them that if cuts were not volunteered he might have to impose them himself, thus triggering a confrontation which the companies were unlikely to win.

The companies were in an embarrassing position, as they introduced increases averaging 15 per cent this year then found plummeting inflation was pushing down their costs.

They had little alternative but to acquiesce, and because the proposed cuts were relatively modest, honours were considered even. On this part, Mr Byatt now seems prepared to stick to the original intention of not renegotiating until 1994 the K factor — the amount charges are allowed to rise above inflation each year. This will fulfil the medium term planning needs of the industry.

Mr Byatt has also warned the companies against excessive diversification and insisted on the separation of diversified subsidiaries away from the core businesses of water supply and sewerage in order to guarantee the protection of the customer from poor commercial judgments.

There are also plans, proposed by the government on Mr Byatt's recommendation, to introduce more competition into the industry, at least at the margins, by allowing outside suppliers to bid for greenfield sites and by making it easier for new entrants to compete with the existing supplier.

More significantly, Mr Byatt has put out a consultation paper on the cost of capital which has angered and worried the industry.

He suggests a higher gearing for companies after 1995 of 50 per cent or even 75 per cent compared with the current typical upper limit of 35 per cent; a reduction in the cost of capital from 7 or 6 per cent at flotation to 5 or 6 per cent; and a reduction in dividend levels from the 9 per cent estimated at flotation to half that, or even to zero.

The industry is set to respond by the end of the month, but the tone of the reaction is already clear. Mr Mike Carney, secretary of the Water Services Association, has said the changes would create an industry in which "efficiency is punished and inefficiency encouraged."

The suggestions, he adds, would fly in the face of investor expectations in the privatisation prospectuses. They would make it harder to finance investment, delay the achievement of better water standards, and would mean even higher prices.

It is a potential confrontation that could have far-reaching implications for the industry and its relations with its customers and shareholders.

Matters are also moving ahead fast on the environmental side, with the European Community waste water directive due to be introduced by 1998. This will ban the dumping of sludge at sea and enforce higher standards of sewage treatment before disposal via pipeline.

Lord Crickhowell and the NRA, which has been having its own problems with the resignation in June of Dr John Bowman as chief executive because of "serious shortcomings" in organisation, has kept a lower profile in recent months. However, it will shortly be bringing out new river quality objectives and it is determined to maintain its reputation as a vigorous prosecuting agency, so the pressure will not let up.

Industry leaders admit they have a big public relations problem, with public and media concentration on high profits, big pay rises for senior executives, and the occasional quality lapse.

The colourful Mr John Bellak, chairman of the Water Services Association as well as of Severn Trent, says: "The disparity between reality and perception is alarming... the industry's defects have been exaggerated beyond measure and beyond reason. The whole thing has been hyped to the point of absurdity."

The problem stems largely from the politicising of the industry during the conflicts over privatisation, and it is set to continue as a political football at least until after the general election.

The Labour Party has pledged that the water industry will be returned to public control, although the priority and timing of the change remain unclear.

But rather than outright renationalisation, which would be a ridiculously expensive option for a party pledged to concentrate resources on health, education and social services, a Labour government would use Ofwat and the other regulatory agencies to change the industry's priorities under the existing rules so that the customer is favoured at the expense of the shareholder.

Mr Byatt, instead of being the vaguely meddling, difficult figure he is at times perceived to be, could turn into the industry's protector against too much government interference.

### IN THIS SURVEY



*■ Editorial production: Phil Sanders*

## Michiyo Nakamoto takes a look at the performances of the 10 companies

# Corporate differences highlighted

WHILE the water companies share a stable core business in supplying water, differences between the 10 have been highlighted in the years since privatisation.

Their relative performances will depend on how each scores on several key points, notably the scale of their capital expenditure programme and their ability to manage the costs and their success in diversifying into non-regulated businesses.

The companies themselves recognise that as profits from the core water business are going to be difficult to increase much due to the regulatory climate, added value to shareholders will have to come from non-regulated businesses.

Mr Andrew Stone at Hoare Govett is looking for those companies which also know how to provide shareholders with a good return without upsetting the regulator.

Anglian: A long coastline and its presence in an area that was one of the worst affected by the dry spell means that Anglian has a very large capital expenditure programme. It is also having to spend substantially to tackle the environmentally sensitive issue of nitrate filtering through into drinking water in some of its areas.

Although the company increased pre-tax profits to £152.6m (from £139m the previous year) in the year to March 31, its continuing need to invest in the core business will keep operating costs high and its approach towards diversification has been conservative. Nevertheless, Anglian has been adept at containing costs and is expected to report a solid rise this year with pre-tax profits to March 1992 forecast at near £175m. The continuing presence of Lyonnaise des Eaux, the French water company with a 9 per cent stake, adds interest.

North West: North West is committed to a heavy capital expenditure programme due to the large number of old towns in its area which need substantial sewerage work and a high-profile coastline.

Last year's £408m capital spend was the highest among the 10 companies. The additional need to finance several acquisitions is likely to push it into an indebted position by the financial year end. However, efforts to diversify into process engineering are paying off and the company is already deriving more than 5 per cent of its operating profits from non-regulated activities. Pre-tax profits of £214.5m (£177.3m) are forecast to rise to between £226m - £250m.

Northumbrian: As the smallest of the 10, successful development of non-core businesses could make a considerable difference to Northumbrian's performance. It was quick to recognise the importance of diversifying into non-regulated businesses and moved into the environmental services sector as well as computer information technology and sewer cable television. Last year it was the only water company to report a set-back in pre-tax profits, which fell to £46.9m (£54.8m). However, costs are likely to fall from last year's high levels, the company is still cash positive and pre-tax profits could rise to between £54.2m and £60m this year.

Severn Trent: Perhaps the most aggressive in its efforts to diversify, Severn Trent has made no secret of its ambition to become a market leader in waste management in the UK. It followed up a hostile bid for Caird, the waste management company, with the acquisition of Biffa, the fifth-largest UK waste management company, which will bring in £100m of unregulated turnover. Severn recently sold its 29.9 per cent stake in Caird, after the bid lapsed.

Substantial non-core expenditure will eliminate its cash surplus but pre-tax profits were up 15 per cent to £249m (£217m) and are forecast to rise to £271m.

Southern: Southern, together with South West, are the two most affected by tighter EC regulation on water pollution. The big issue for Southern is to what standard does the treatment of effluent need to be raised and how much it is going to cost. Although it ruled out a cost pass through application this year, the issue is a long-term one for Southern.

Diversification has been low key, with modest involvement in activities ranging from plumbing to bottling mineral water. Pre-tax profits of £97.1m (£84.1m) are expected to rise this year to about £117.8m, helped by a £7m exceptional profit from the sale of 25 per cent shareholdings in three water supply companies.

South West: Like Southern, South West Water faces substantial costs in cleaning up its beaches and expects to spend an extra £230m, or about 40 per cent of its entire capital expenditure to 1995, on improvements to its sea waste outfalls. Not surprisingly, the first interim application for cost pass through comes from South West and a decision on the application is expected from Ofwat within the year.

Diversification has been in the form of a 20 per cent stake in the West Country Television consortium. Meanwhile, interest income which provided as much as 42 per cent of its £88.2m (£82.8m) pre-tax profits last year is dwindling while the company faces one of the fastest-rising capital spending programmes in the industry. Forecasts for the full year range from £88m to £92m.

Thames: Thames, the only water company so far to have reported interim figures for 1991-2, opened the results season on a conservative note. The largest of the 10 companies and noted for its aggressive management style, the company nevertheless adopted a conciliatory tone towards the regulator at its interims. Management has also attempted to please customers by avoiding a hosepipe ban in a dry year and accelerating work to prevent leakages. Its also lowered its 1992-3 water price increase.

Interim pre-tax profits of £118m (£113m) were slightly lower than anticipated, underlining Thames's vulnerability to fluctuations in metered consumption by industry and commerce. The forecast is for £231-£242m and it remains to be seen whether the recession will still be affecting measured revenue in the months ahead.

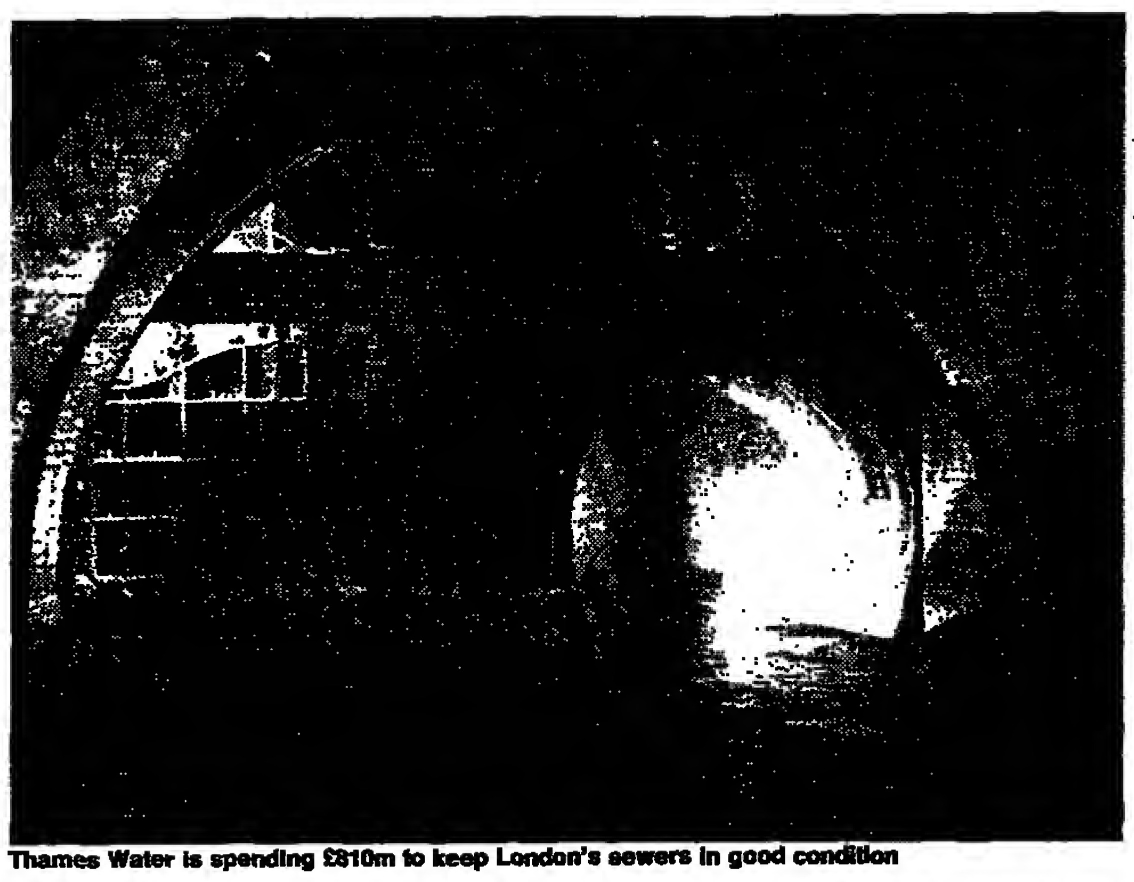
Welsh Water: Welsh was initially considered one of the most attractive of the 10 but some of the shine has worn off as a result of tighter environmental regulation and the 14.9 per cent stake it acquired in South Wales Electricity. This holding, gained at the expense of considerable hostility on the part of the electricity company, has left many wondering what exactly Welsh Water's intentions are as talk of mutual co-operation has failed to yield anything so far. Diversification has taken it into the hotels business and also engineering and environmental consultancy. Pre-tax profits of £128.2m (£97m) exceeded forecasts by more than any other company but on the other hand capital spending has fallen behind. In the current year forecasts are for £144.2m.

**One of the smallest of the 10, Wessex has gone into the waste management business in a bold way**

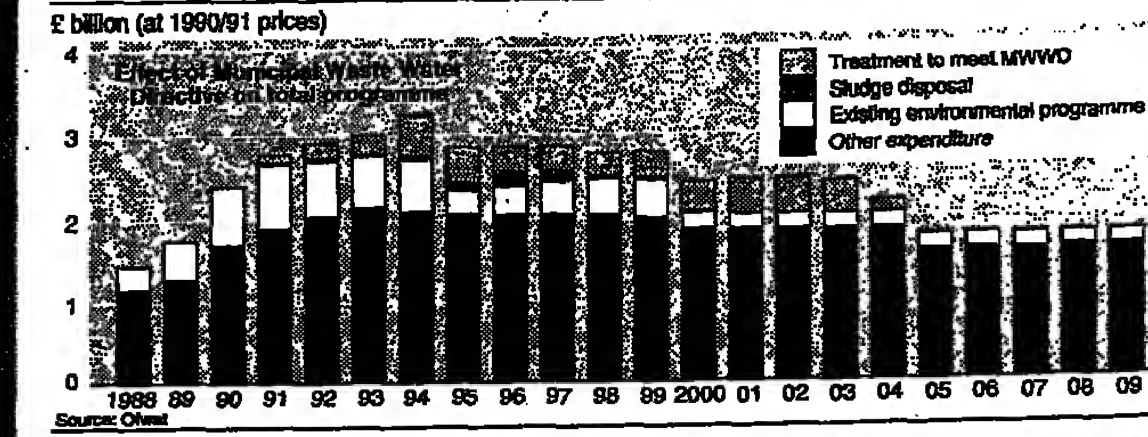
Wessex: One of the smallest of the 10, Wessex has gone into the waste management business in a bold way. It has set up Wessex Waste Management, a £125m joint venture in a broad range of solid and liquid disposal and treatment activities with Waste Management of the US, the largest and a highly respected waste management company. This subsidiary acquired Wimpey Waste Management, which ranked fifth in the UK.

Its determination to succeed in its chosen non-regulated field is demonstrated by the statement that non-regulated profits could contribute as much as the core water business within six to seven years. Meanwhile, the structure of its deal with Waste Management could result in the US company owning up to 20 per cent of Wessex. Capital expenditure is undemanding and pre-tax profits of £66.0m (£56.5m) at March 1991 are forecast to rise to between £73m-£80m this year.

Yorkshire: The highly-rated management foresaw the tightening of the European Community's environmental standards and developed sludge incineration techniques early on. As a result, Yorkshire is a UK leader in this technique and this has kept the company's capital expenditure programme relatively low risk. Yorkshire is also keen to invest in the waste sector. The enterprise division, its non-core activities such as laboratories and engineering, contributed £7.1m to turnover. Pre-tax profits of £114.1m (£101.3m) were at the higher end of market expectations despite charges for 1991-2 that were the lowest for the 10 companies. Forecasts are for profits up to £122.5m.


Thames Water is spending £810m to keep London's sewers in good condition

**Investment programme**



Source: Ofwat

## Elisabeth Tacey talks to suppliers

# Spare capacity available

SUPPLIERS are finding that the trickle of orders flowing from the water utilities' £28bn, 10-year investment programme is not the flood that they were warned about – it is not even strong enough to fill their working capacity.

The reality seems a far cry from the expectations of 18 months ago, when the utilities expressed fears that UK suppliers would be unable to cope with the expected huge order volume.

In May, Mr Robin Millard, director-general of the British Effluent and Water Association (Bewa), the suppliers trade body, said of the lack of orders that "several of our members are reporting spare capacity and clients may well regret that this has been squandered".

Mr Millard, managing director of Simon-Hartley, a treatment plant subsidiary of the Simon engineering group, believed that "an improved state of co-operation" was building between the water companies and suppliers – but still argued that the suppliers had too little information on the companies' capital spending plans and could not plan their resources effectively because of that.

But Mr Paul Garrett of the Water Services Association, the water companies' representative body, says: "I think the water companies are giving as much information as they can". Companies have said how much they are spending, on what and when, he says, and the suppliers "should know the scope of it [the investment programme]".

Bewa found in its latest four-monthly survey published this month that more than two thirds of Bewa members considered lack of orders their main problem, and nearly half said their amount of work was less than satisfactory.

Orders for municipal water treatment plant had fallen by 20 per cent in the first half of the year – although orders for effluent treatment plant had risen by 40 per cent. "Concern is still increasing among contractors that their capacity is less utilised than was initially anticipated," says Mr John Hills, Bewa director.

In the July survey, Bewa found that half their supplier and manufacturer members had less than three months' work on order and in this month's survey this difficulty has increased.

The Society of British Water Industries, set up in 1966 as a talking shop for companies to liaise with the water authorities for which they were working, agrees that the work is coming through "not as much or as fast" as its members would like. For the contractors, SBWI says that the workload is "increasing slowly" and they expect a peak in two to three years' time. Bewa reckons contracting activity will be greatest from the second half of 1992 to 1994.

Mr Garrett says that the investment programme is running to schedule and work on some projects is almost finished, while others are near the beginning. He says that orders may increase during the next few years, but he suggests that some companies may be expecting work that will not materialise.

The SBWI and Bewa both say it has taken time for the water companies to get the planning consultations out of the way. And Mr Hills says that, having made two rounds of visits to the companies since privatisation, he hopes the water companies better understand suppliers' worries about a sudden unexpected load of work. A peak is not necessarily good for anybody," he says. "The more work that comes out all of a sudden, the more likely that things will go wrong."

Mr Garrett says the programme is "graduated" over a 10-year period: "There are no horrendous peaks."

Mr Millard says he is concerned about the influx of "engineering and project management resources from outside" into the municipal sector: "Our members will be squeezed by the over-capacity from the new entry companies who could well move out of our sector if greener pastures appear elsewhere."

Mr Hills admits that "the orders could be going elsewhere", although he believes the amount going abroad is small. Mr Garrett says that much of the work may be going to companies' in-house experts or to joint ventures set up between water companies and suppliers, particularly contractors. Mr Hills points out that 10 per cent of Bewa members are now owned by the water companies.

BSWI agrees that "water companies are undertaking contracting work themselves, which is tending to cut into the rest of the privatised sector".

In contrast, Mr Jim Prestridge, director of the British Water Industries Group, says his members are "pretty bullish". All companies, including the smaller ones, are increasing their turnover when other industries are losing work.

He points out that there are "equally large programmes" throughout western Europe to bring the EC into line with directives on water quality, and there are big markets opening in central Europe as aid begins to flow that way. With a local partner – "essential", says Mr Prestridge – and improved language capabilities, there are "very good prospective markets throughout Europe", he says.


A £4m advanced water treatment plant at Kempton

The Bewa survey found that about a third of its members were having to work to client specifications and make new designs of plants rather than sell standard plants which would save delays and up to 20 per cent of the cost.

But Mr Garrett replies that the water companies "must have their reasons" for their designs, perhaps deciding that such designs would better comply with the European standards that are the reason for much of the work.

The need to comply with new European directives is also leading 90 per cent of Bewa members to increase their research and development work. Mr Roger Stokes of the Water Research Centre says the impetus has come from companies having to compete by public tender throughout Europe, and from the Construction Products Directive: "the most complicated bit of legislation".

He says that suppliers "must get their act together" to meet the attestation, or quality, requirements, which mean improving either the suppliers' quality assurance or the performance of their products.

"There is a need for products to be better defined or better performing," he says.

The increasing competition means there is also a "greater desire to demonstrate that products meet these [EC] requirements," he says – so independent assessment and testing of products is on the increase.

Use of plastics is increasing. Mr Stokes says that plastics pipes with large diameters, such as sewers, are being developed with new plastics that have the rigidity needed to withstand the heavy soil load. The Street Works Act, which came into effect this year, requires that public works are done with the minimum of disruption, for example minimising trenching and bedding of pipes. Research into robotics is therefore also increasing.

There is also a "huge involvement in writing new European standards", he says, "making sure that the UK is not disadvantaged".



## Richard Evans on the statutory companies

# Remarkably stable

IN THE past few dramatic years for the water industry, most attention has inevitably focused on the 10 water and sewerage companies that were privatised. The rest of the industry – and the former statutory water companies – have been edged out of the spotlight.

This is understandable because the process of flotation represented the biggest structural change in the industry for 15 years, but the fact is that privatisation has had as big an impact on the water-only companies as on the former water authorities.

The 28 water-only companies, although already in the private sector, have also had to adapt to the new structures, and most of all with the new and dominant regulatory regime. It has at times been a costly and difficult process.

"Everything has changed for us as well, and we are still in the process of coming to terms with the regulators," says Mr Michael Swallow, secretary of the Water Companies Association.

The water-only companies – called water supply companies by the association – have shown a remarkable resilience over the years and have managed to retain their independence against all the odds despite a series of industry reorganisations.

They vary in size from South Staffordshire which supplies 1.25m customers and had a turnover of £41m in 1990-91 to Hartlepool which covers 90 square kilometres and supplies a population of 92,000. In all, they provide a quarter of the water in England and Wales but unlike the former authorities they have no dirty water functions.

Historically, water companies were the pioneers of the water supply industry in England and Wales, in response to the growing industrialisation and urbanisation of the 19th century. By common consent, their record has been a good one.

In 1849, for example, when there were more than 70,000 deaths in England from a cholera epidemic, it was noted that "Newcastle and Gateshead were plentifully supplied with water unpolluted with sewage... and these towns escaped with a very slight visitation of cholera."

The structure of the industry prior to privatisation was created by the 1973 Water Act which rationalised the numerous local authority-controlled bodies concerned with water and set up the 10 regional water authorities based on integrated river basins.

**French water companies saw their chance**

The statutory water companies escaped the 1970s reorganisation largely because of their powerful political support. They have traditionally had Peers and senior MPs as political allies and they were simply too difficult a hurdle for Mr Edward Heath's Tory government to surmount. It was far easier to leave them alone.

They were privately owned, incorporated by individual acts of parliament and with their shares quoted on the stock exchange and held mainly by institutional investors. Strict financial controls covered dividends, the amount of capital that could be raised, and charging patterns.

It was a sleepy, low-profile area until there were indications that the big authorities might be privatised and big French water companies, among others, saw their chance to gain a foothold in the changing UK industry.

In 1988 and the early part of 1989, Compagnie Générale des Eaux, Lyonnaise des Eaux and SAUR – a subsidiary of the construction group Bouygues – launched 12 successful bids for statutory water companies, two of them contested.

They bought large stakes in several other companies and forced the government to enact legislation obliging the Monopolies and Mergers Commission to investigate any further large bids in the industry.

Since then the choppy waters of the statutory company sector have calmed and the French have been busy consolidating their position by merging some of the activities of neighbouring companies where they have a controlling interest.

The present position is that Compagnie Générale controls six companies, North Surrey, Folkestone and Tendring Hundred, and Colne Valley, Lee Valley and Rickmansworth, where many operations are being merged into Three Valleys Water Services. It has stakes in three other companies and has set up Gusto (General Utilities Scientific and Technical Organisation) to provide a forum for the companies.

Lyonnaise des Eaux Dumas is promoting a similar exchange of technical expertise. It controls four companies, Essex and Suffolk and Newcastle and Sunderland, some of whose operations have also been merged.

SAUR controls three: Mid Southern, Mid Sussex and West Kent. Biwater, the British construction and water contractor, owns Bournemouth and has a controlling interest in West Hampshire and East Worcestershire.

Most of the companies bought by the French suppliers are still run as independent units, with guidance from the parent company's UK subsidiary.

The privatisation of the water authorities and the introduction of a new regulatory regime gave the statutory companies the opportunity to convert to public limited company (plc) status should they so choose in order to avoid voting and dividend restrictions. It also gives access to competitive capital funding rates and new methods of raising capital.

The process has been a slow one, partly due to continuing political uncertainty over the industry's future, but there has been a steady trickle since Mid Kent Holdings became the first to take the plunge.

Since then it has been joined by East Surrey, Newcastle and Gateshead, Sunderland and South Shields, Colne Valley, Lee Valley, Rickmansworth, Portsmouth, York and Mid Southern. The latest to change status are two of the biggest – South Staffordshire and Bristol – both of which complete their conversion this month.

There have been a number of others, including North Surrey, which have converted to limited company status or have shrugged off their statutory status through shareholders' resolutions without converting fully to a plc.

But despite these changes, the water supply companies have been remarkably stable over the past year following the turmoil that preceded privatisation. This could continue as Mr Ian Byatt, director-general of Ofwat, the industry's regulator, has made it clear he has no intention of permitting wholesale mergers or takeovers in order to preserve as much comparative competition as possible in what must remain an essentially monopolistic industry.

**John Hunt** considers environmental aspects

# Pressures intensify

THE WATER industry has always been been a natural target for "green" campaigners and these environmental pressures have intensified since the privatisation of the industry two years ago.

Britain, in common with some other European Community countries, has been in trouble with the EC Commission over failure to comply with the drinking water directive which lays down levels of pesticides and other substances in water and the bathing waters directive on quality of beaches.

Many other industrialised countries suffer environmental problems connected with water supply. The situation was recently examined by the Organisation for Economic Co-operation and Development (OECD)in a survey of its member states which include western Europe, the US, Canada, Japan, Australia and New Zealand.

It concluded that although the majority of environmental expenditure is concentrated on water improvement, the situation is not improving as fast as was hoped.

However, it did see some progress. Significant microbial contamination of drinking water supplies had been virtually eliminated and the percentage of population served by sewage treatment had risen steeply.

The UK has now put forward a compliance programme which, says the Department of the Environment, will mean that the water industry will be in broad compliance with the EC water and beach directives by 1995.

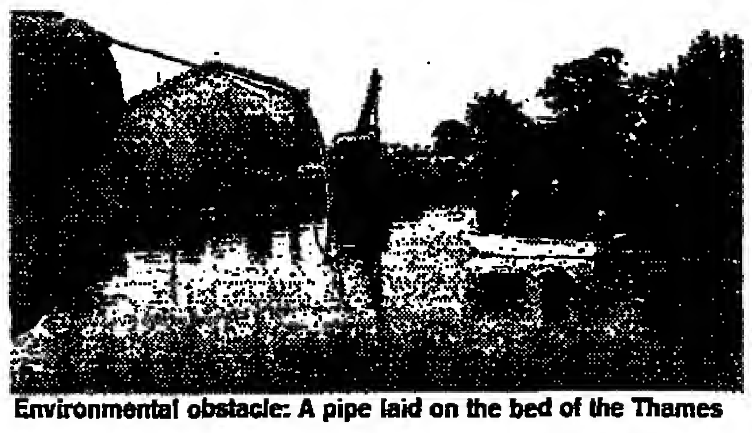
The Water Services Association (WSA), representing the 10 big water companies, says that targets for water improvement are being systematically achieved as the companies make up for the backlog of under-investment in the years before privatisation.

The industry has a massive £28bn improvement programme up to the year 2000, including £13.7bn on sewage works. Of this, £2.9bn will be spent to bring most bathing beaches up to EC standards by the mid-1990s by building long sea outfalls and more sewage treatment plants on the coast.

Improvements in drinking water quality will account for £1.8bn investment over the next five years.

Eight water companies serving 12m people recently gave the government a commitment to build a total of 79 new water treatment plants at a cost of £450m by the end of 1995, in order to comply with the EC drinking water directive. A further 15 companies are expected to follow suit shortly.

"All investment has to be paid for ultimately by the customers," warns the WSA. "This is true whether water is publicly or privately owned."



Environmental obstacle: A pipe laid on the bed of the Thames

The industry welcomed the recent report of the Drinking Water Inspectorate which said that water supplied by the 39 English and Welsh water companies was "generally of a high standard and much was of an exceptionally high standard."

It found that standards were met in 99 per cent of the 3.3m tests it carried out in a year.

However, environmentalists point out that the inspectorate was also considering prosecuting four water companies for failure to meet drinking water standards. In other cases, the inspectorate had to take enforcement proceedings to make companies start reducing levels of pesticide residues and micro-organisms.

According to Friends of the Earth, the environmental pressure group, 10m consumers in the UK are supplied with tap water which is contaminated beyond legal limits. It says some people will have to wait until the year 2002 until their supplies meet the required standards.

The Government has allowed time for the companies to bring drinking water into line with the EC directive which says that pesticide residues must not exceed one part in 10bn of the water supply – a minute quantity known as a surrogate zero.

The government and the companies say that water in the UK is perfectly safe for drinking and complies with the World Health Organisation's guidelines.

Much controversy has centred on complaints about dirty beaches. Friends of the Earth says more than 300m gallons of raw or virtually untreated sewage are discharged around the UK coastline every day.

"This sewage contains bacteria and viruses that can cause stomach upsets, sore throats and vomiting," says Friends of the Earth.

Nevertheless, improvements are being made. In 1990, some 78 per cent of discharges of sewage to bathing waters complied with EC standards, compared with 55 per cent in 1985.

There has been a big rise in investment to improve bathing waters. It was £30m a year between 1981 and 1985 and since then has been running at £100m annually.

By 1995, most beaches will meet standards except for one or two big improvement schemes which will be completed by 1998.

In any case, says the WSA, sewage discharges only accounted for 10 per cent of bathing water pollution in 1990. It says most river and sea pollution now comes for sources such as industry, mining, agriculture, fish farms and boats.

It maintains that the UK's current improvement programme for bathing waters is well in advance of other EC states. However, some EC countries have a better compliance record – Netherlands 90 per cent, France 86 per cent, Ireland 85 per cent.

Britain intends to cease the dumping of sewage sludge in the North Sea by 1998 and this will cause problems for the water companies.

Much of the sludge is already treated and used in agriculture but more now has to be disposed of on land by other methods. Landfill sites have become more expensive over the years and the alternative of incineration is also very costly. New incineration plants would have to be built and could face strong opposition from local residents when planning permission is sought.

There is also a problem with depleted rivers and streams drying out at certain periods of the year because of over-abstraction of water. Demand for public water supply has increased by 70 per cent in Britain over the past 30 years and periods of drought have made matters worse.

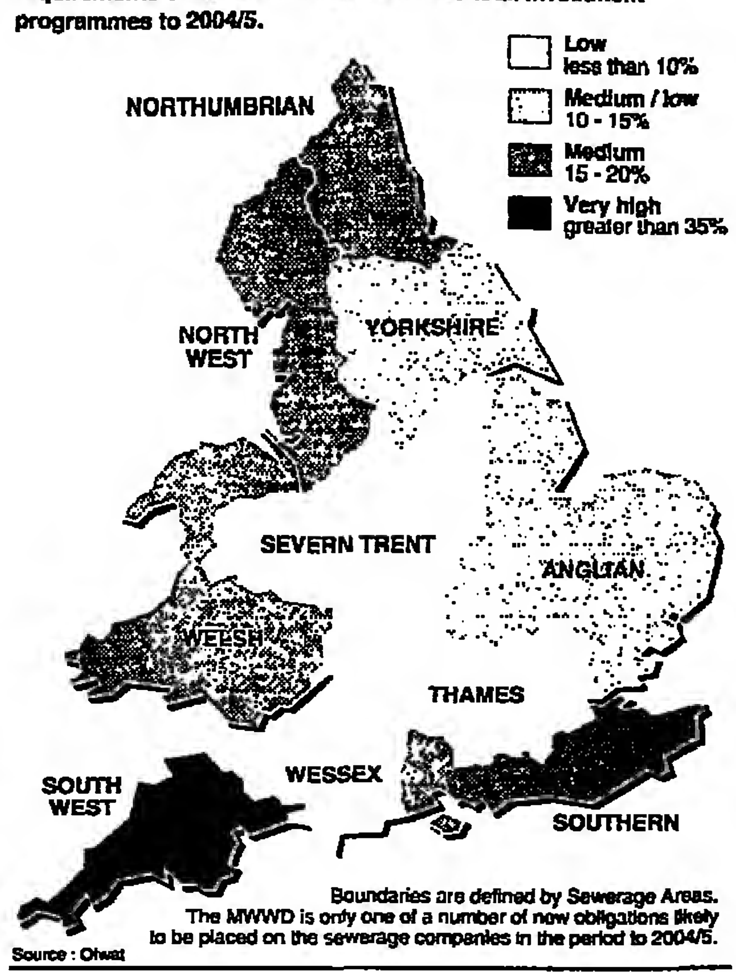
About 50 rivers in the UK suffer from depletion which devastates wildlife and landscapes and exacerbates pollution.

The Council for the Protection of Rural England argues that provision of more water resources such as new reservoirs is not the answer. Demand would only increase to meet the supply in the same way that a new motorway rapidly fills with traffic.

"Rather than developing new resources, the time has come when we must acknowledge that the only way forward is to manage demand broadly within the limits of our existing water resources," says the Council.

**Municipal waste water treatment directive**

**The impact of the additional investment necessary to meet the requirements of the MWWD relative to the total investment programmes to 2004/5.**




Boundaries are defined by Sewerage Areas. The MWWD is only one of a number of new obligations likely to be placed on the sewerage companies in the period to 2004/5.

Source : Ofwat

**Andrew Freeman** on the no-nonsense regulator

# Consumer's friend

YOU only need to glance at pages 62-64 of Ofwat's 1990 annual report to see how active the water sector's principal regulator has been. The list of letters to managing and finance directors from the Office of Water Services is impressive evidence of the seriousness with which Mr Ian Byatt, director-general, approaches his task.

His reputation as a no-nonsense negotiator and champion of the consumer has been steadily reinforced by a well-chronicled series of pointed interventions.

The other main industry regulator, the National Rivers Authority, has been much less in the spotlight, despite an active first year in which it raised awareness of water pollution. This article will concentrate on Ofwat. Not surprisingly, Mr Byatt's zeal and robust handling aroused strong feelings among the water companies. For a start, they have had to watch their shares underperform the market despite their ability to pay above-average dividend increases. They have consistently argued that some of Mr Byatt's positions are incompatible with the terms of his regulatory licence.

Mr Byatt has commented that a high profile for water and sewage is not always comfortable for those involved, but says he believes it is in the public interest. Discomfort was plainly evident in the behind-the-scenes negotiations which preceded September's announcement on next year's price increases.

Ofwat made it very clear over several months that it considered the companies' profitability to be excessive. Had unexpected profits come from efficiencies, the companies might have been allowed to keep the money and pay higher dividends to shareholders. Instead, it was obvious that a favourable operating and financial environment had made the sector unexpectedly wealthy.

While Ofwat has been aggressive in exploring the limits of its government licence, it has always stressed that the regulatory framework must hold good in the longer term. It knew that if it took too tough a stance on prices during the good times, consistency would suggest that it would then have to allow the companies to pass on costs to customers in a less friendly operating environment later on.

As in 1990, Mr Byatt wanted the companies voluntarily to give up some of their permitted price increases so that customers gained some of the benefit.

In cases such as Welsh Water and Severn Trent the implied sacrifice was considerable.

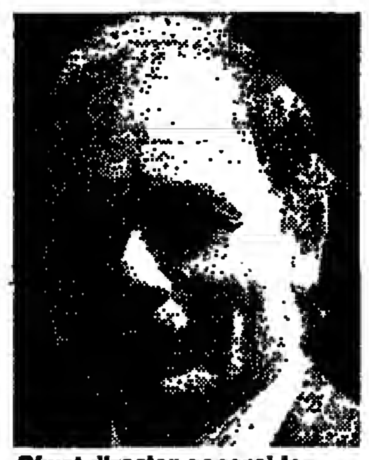
Discussions between Ofwat and the companies were conducted privately, but it is an open secret that at least two companies threatened legal action against what they thought was an unjustified extension of Ofwat's powers.

They argued that the precise limits of Ofwat's licence hinged on the definition of the term "economic forecasts" among the factors allowing regulatory intervention. From the shape of the settlement, it is clear that they largely won the argument. Although Ofwat obtained so-called voluntary abatements from all the companies except South West and Anglian, the decision to accept relatively small abatements was seen as a climb-down.

South West Water was an exception because extra capital spending requirements meant it was applying for larger price increases than those fixed at the time of privatisation. Anglian was the other company which refrained from offering a price increase abatement, but it asked for more time and promised to try to help its customers in other ways.

The regulator may have saved consumers some £40m off next year's bills, but the companies in aggregate kept 84 per cent of the maximum allowable price increase.

The danger was that Ofwat would ignore small voluntary reductions and force the intervention of the Monopolies Commission. Instead, Ofwat chose to lay stress on the avoidance of an annual cycle of price battles. In his statement explaining the abatements, Mr Byatt placed the pricing issue in a medium-term context, defining its regulatory role as guarding against monopoly abuse while preserving performance incentives.



Ofwat director-general Ian Byatt: pointed interventions

To some extent, that position represents relief for the sector. Arguably, Ofwat's decision should dictate the shape of price regulation up to the industry review in 1995. But few of the companies express unqualified optimism about the future of the regulatory regime.

Mr Byatt is perfectly free to review price increases again next year. Indeed, everything suggests he will have to do so because the companies' core profits will once again be embarrassingly high.

Alternatively, he can simply bide his time until 1995, at which point the way is open for him to install a much tougher regime.

Given that the companies were privatised on the basis of financial assumptions which quickly looked absurdly generous, it was not against their interests to give their customers a small break. But one can argue that the companies can do little to stem the growing tide of public opinion against private sector monopolies.

Political feeling will follow the voters. It is a matter of judgment as to how long it will be before voter discontent is translated into much tighter regulation.

A hint of the shape of things to come was given in the recent proposals for the government's Citizen's Charter. As part of the consultation process, the Department of Environment called for greater competition within the water industry, despite the fact that the structure adopted for privatisation recognised the natural monopoly characteristics of the water business.

Competitive measures proposed by Ofwat included a series of changes in the rules affecting bulk water and sewage services. The industry's immediate reaction was that future profitability would be barely altered. But between the lines of the proposals can be discerned a tough future.

Mr Byatt has stressed that there are two big policy issues facing the industry. The first is the need to finance improvements to water quality and to the environment.

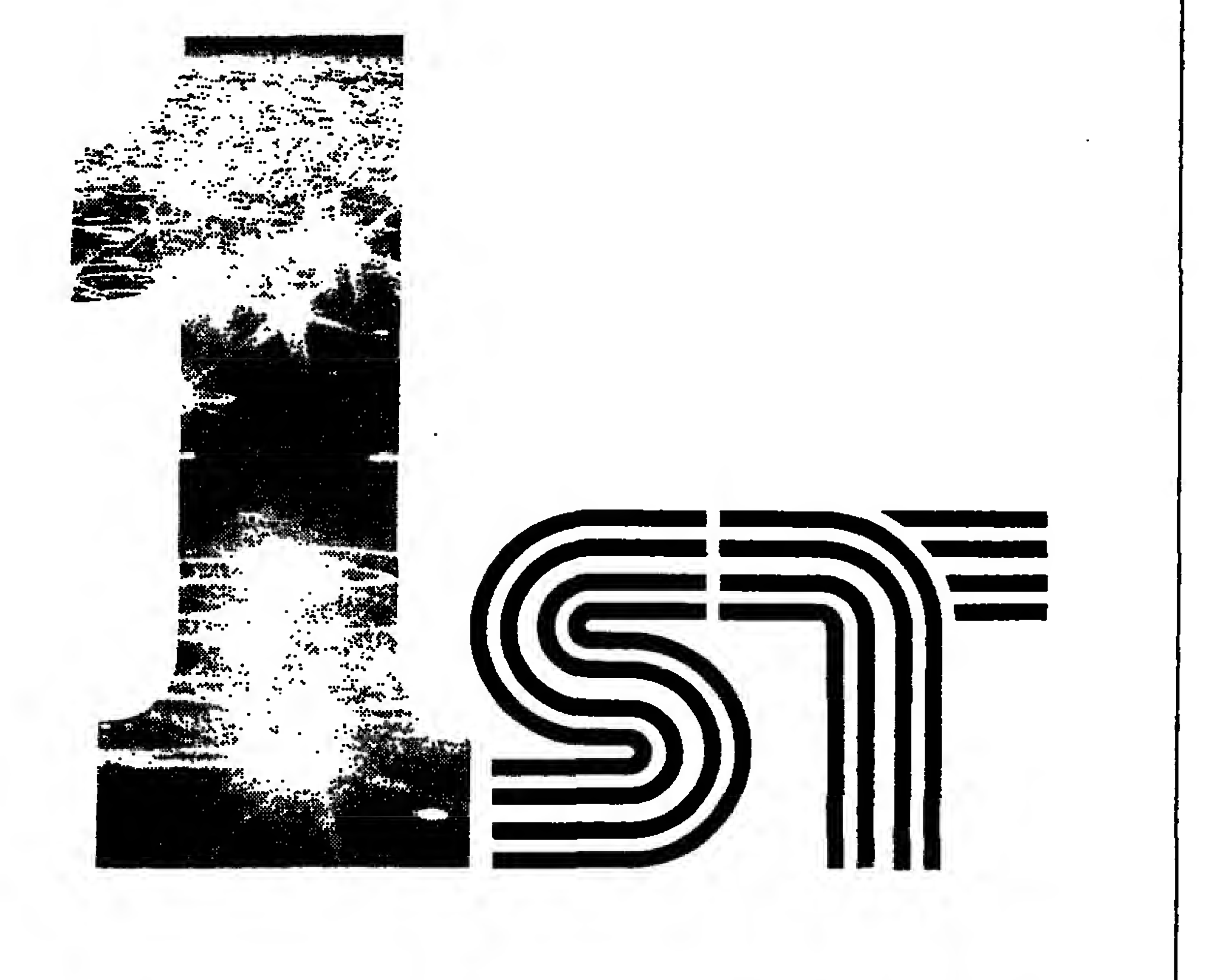
The second concerns the way domestic consumers are charged for their water in future.

A further way in which Ofwat has taken the lead in regulating its industry is in its insistence that the regime must be based on good, accurate and consistent information. The water companies are now subject to a rolling technical and financial audit.

Ofwat is also developing a code of practice, as well as a series of output measures to act as surrogates for improvements in performance and efficiency.

National Rivers Authority?





## WATER INDUSTRY 4

■ THE CITY'S VIEW

# A better understanding

THE water sector has had its fair share of fluctuations, particularly in recent months as investors' concerns over regulation have heightened. But alongside that immediate influence, there has been a continuing need for investors to develop their understanding of the industry in which they have placed their money.

It is possible to identify a gradual process by which the institutional investors have become more familiar with the water companies. At the outset, analysts and investors alike were hampered on several fronts.

Mr Robert Miller-Bakewell, sector analyst at County NatWest, remembers that some of the water companies were slow to anticipate their movement into the private sector and invite outside scrutiny of their businesses.

There was also the problem of explaining a new industry to investors. Mr Peter Hyde, sector analyst at Kleinwort Benson, says: "When the companies were sold off, there was a general lack of understanding of utility investment. Now it has become more obvious that the companies are not homogeneous. Investors realise that not only can they switch between, say, water and gas, but they can also switch between individual water companies."

There was no single moment when investors realised that the water sector did not consist of a single entity that had simply been broken into 10 pieces by privatisation. By the time the package of water shares was broken into its constituent parts in July, only about 10 per cent of the shares were still held as package units, which suggests that investors had largely realised they had to take a view on the individual companies. Analysts report a growing interest among institutions in making company visits.

In that sense, it has slowly become clear that the government's marketing of the water flotation was essentially misleading. The 10 companies were quite different, not just in their financial profiles but in the philosophies of their managements, particularly with regard to relationships with the industry regulator.

Why did the process take so long? Mr Miller-Bakewell points to the need in the flotation prospectus for profit and dividend forecasts. This gave the companies unusual latitude in their dealings with analysts and investors and delayed the formation of channels along which information normally flows.

**Some company chairmen were content simply to cite a prospectus page number**

When asked about progress, some company chairmen were content simply to cite a prospectus page number, without further elaborating. There was also a misleading tendency for managers to claim they had excellent relations with the regulator, where in practice there were some fierce confrontations.

Not until this year's results has it finally become clear to analysts which managers can be relied on for accurate industry background.

Analysts think the spectrum of companies is now more accurately defined than it was in the period immediately after flotation. Originally, Anglian Water, which had a conservative management and was seen as the purest water company, was at one end. At the other was Severn Trent, which had an ambitious and expansive management and was keen to diversify away from its core business.

But as Mr Hyde comments: "The true differences between the companies began to become more obvious from about March last year, but we can still have a problem persuading investors of this." The difficulty is partly a reflection of the fact that the companies' long-term strategies, although better delineated, are still relatively unclear.

The question from the investor's perspective is whether those differences have been adequately reflected in the yields on the various shares. When trading began after flotation, there was a consistent yield range of a percentage point between the ten companies.

At first glance that range has slowly widened so that recently, partly-paid shares in Wessex were yielding 6.6 per cent, while those of South West Water were on easily the highest yield of 8.8 per cent. Analysts point out that these two companies have come to occupy the extremes at each end of the spectrum which were originally occupied in principle by Anglian and Severn Trent.

If Wessex and South West are excluded, the opposing positions are filled by Thames (7 per cent) and Southern Water (8 per cent), with the remaining companies somewhere in between. Of the eight companies, five consistently trade below the average yield for the sector – Thames, Yorkshire, Anglian, North West and Northumbrian. The remaining three, Welsh, Severn Trent and Southern carry yields roughly 0.5 per cent higher than the pack, but significantly less than South West.

That narrow differential suggests that the bulk of the companies are still seen as broadly similar. But there is general agreement among analysts that investors have developed a greater understanding of the sector. This has extended into a growing willingness to compare water with other utilities such as electricity. For example, a leading broker recently took a party of institutions to Birmingham to meet the regulators of the two industries.

For investors, it was a chance to assess the respective regulatory regimes. There are some funds, however, which will hold water shares whatever the uncertainty over Ofwat's intentions.

A breakdown of the yields available on stocks in the FT-SE 100 index of leading companies shows that the water companies feature heavily among the highest yielding stocks, along with banks, insurance companies and miscellaneous others. Because water shares have much better prospects for dividend growth that most high-yielding stocks, they are very attractive to specialist income funds.

From that investor's perspective, the political and regulatory risks are unlikely to translate into significant downward movement of the shares. Even if, for example, Ofwat moved to impose dividend restraint on the water sector, the companies would probably be allowed to grow dividends in line with inflation, implying a yield on the shares not less than yields on cash.

**Andrew Freeman**

Conflicting ideas must soon be resolved, writes **Richard Evans**

# Deadline looms for a decision on charges

THE IDEA that water should be sold like any other commodity and priced by quantity consumed has always had an appeal to market theorists. When the water industry in England and Wales was privatised two years ago, it was assumed that most of the new companies would eventually switch to metered supplies.

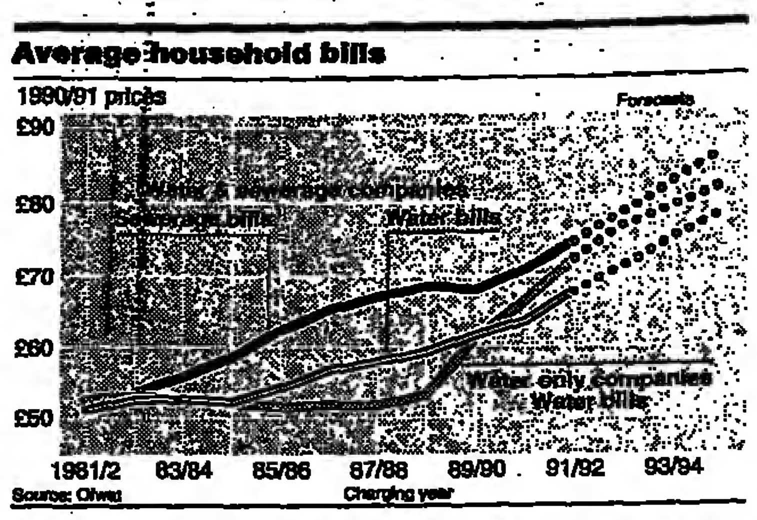
After two more years of discussion and research, the time is fast approaching when a decision in principle will have to be taken on future charging policy, but the uncertainties seem as acute as ever.

At present, virtually all industrial and commercial users are metered and pay for their water accordingly while most private householders pay for their water on a scale linked to the rateable value of their house.

The government has agreed that charging based on rateable values can continue to the year 2000, but because domestic rates were abolished with the introduction of the Community Charge, or Poll Tax, in April 1989, an alternative charging system will have to be found before then.

The relatively close target date – preparations will need to be made several years ahead of the deadline – has concentrated the minds of industry leaders and technical experts wonderfully, but there remains a range of conflicting views that will shortly have to be resolved.

**The relatively close target date has concentrated the minds of industry leaders and technical experts wonderfully**




Charging for water services based on rates was never regarded as particularly fair or logical, but because water and sewerage charges have traditionally been relatively low, protests were muted. It was not worth creating much of a fuss over any marginal unfairness. Also, the system did bear a crude relationship to a household's ability to pay, as more highly rated properties tended to be occupied by the better off.

However, what to put in place of rates remains an open question and it is now certain that a range of options will be chosen rather than a uniform method. It will be up to each company to decide its strategy after consulting its customers and the Office of Water Services (Ofwat), the industry's economic regulator.

Mr Ian Byatt, director-general of Ofwat, one of whose main responsibilities is to safeguard the rights of customers, published a consultation paper on charging alternatives a year ago and is due to publish his guidelines by the end of this year.

He outlined three main charging options: A flat rate or licence fee, a banding system based on types of household, and metering. All have their merits, but there are also drawbacks of unfairness or high cost, and the choice will not be easy.

A flat rate charge, which would operate like the television licence, would be simple and cheap to set up and it would provide certainty of income for companies. But it fails to provide incentives to save water or for companies to meet consumer demand. It is also open to the same criticism as the Poll Tax of making no allowance for ability to pay.

A banding system, initially a back runner but increasingly favoured as a sensible compromise, would classify households according to their type and size. The charges would therefore bear some relation to consumption, and the administration would be relatively simple once set up, particularly if the valuations were based on the proposed new council tax. However, once again there would be little incentive to save water.

Metering started out as the most obvious option. Its fairness, being based on what people use as with gas and electricity, is not in doubt. But there are big doubts over capital and running costs as well as over public and political acceptability. It could mean big bills for large, poorer families.

A series of metering trials, consisting of one large area of 53,000 households covering the whole of the Isle of Wight and 11 smaller ones of about 1,000 properties each, is shortly coming to an end and they have not provoked the adverse customer reaction that was widely forecast.

Some of the trials have shown that the average household reduces consumption by 10 to 15 per cent if the water bill is related to the amount it uses, and this is one reason why organisations such as the National Rivers Authority and the Council for the Protection of Rural England have come out in favour of metering. It helps to preserve a valuable resource.

Mr David Gadbury, director of planning at Southern Water and chairman of the group monitoring the trials, accepts that the cost of metering is a big problem, but believes that metering is likely to be introduced in areas where it would bring the highest environmental benefit such as the parts of the south east with the greatest water shortages.

Strong adverse views have also emerged, however, largely because of excessive cost. The Institution of Water and Environmental Management, which represents 11,000 industry professionals, claims that the cost of nationwide metering would be £4bn, the equivalent of £200 a household, and that anticipated reductions in consumption were unlikely to materialise or would at best be small.

"Household consumers would see no benefit from this massive investment and penalty tariffs would be necessary to bring about a meaningful reduction in consumption," it argues.

**The incidence of metering is bound to grow, if slowly, as most companies now automatically meter all new houses**

Thames Water, the largest supplier and initially one of the strongest advocates of meters, has now ruled out compulsory metering. It concludes that metering might make economic sense for some big houses in the stockbroker belt where water sprinklers run riot in the summer months, but not for most other homes, particularly where supply pipes are shared.

However, the incidence of metering is bound to grow, if slowly, as most companies now automatically meter all new houses and flats.

Ironically, much of the preparatory work of the past two years might have been wasted as the Poll Tax, the original reason for the introduction of a new charging method, is due to be abolished by April 1993.

The proposed Council Tax based on property values, or the Labour party's return to "fair rates" could give another option, and water charges could continue to be based on property values, thus avoiding much of the disruption that has been forecast.

■ DIVERSIFICATIONS

# Fewer than expected

THE privatised water companies have always had an obvious incentive to generate earnings which fall beyond the controls of Ofwat, the Office of Water Services. The stronger the regulation of their core business, the more in principle they will want to develop other earnings streams from which to reward shareholders.

Indeed, such was the likelihood of a string of diversifications that in June this year Ofwat issued a stern warning to the companies: "I am determined to ensure that the diversification activities of the plc cannot harm the core business," said Mr Byatt, Ofwat's director-general. "Water customers would quite rightly feel concerned if they felt that diversification was prejudicial to their own interests."

In other words, customers were not to become the victims of over-ambitious expansion into new areas by their local water company. Ofwat subsequently issued operating licence amendments under which the water companies must ensure that at all times they have adequate financial and management resources to run the core business.

The irony of the implied dispute between Ofwat and the industry was that, with albeit well-publicised exceptions, there have been many fewer diversifying deals than was predicted at the time of privatisation. While most of the water companies have made some nod in the direction of new businesses, this has often involved nothing more than a gentle expansion of specialist activities related to the core business, for example specialist engineering or environmental services.

In practice, the companies have also already begun to make the distinctions urged on them by Ofwat. For example, in May this year when Severn Trent paid £212m to acquire the Biffa waste management business from BET, it publicly insisted that funding for the diversification was quite separate from the capital programme of its core water business.

Other companies have been careful to make the same distinction. When Welsh Water issued a £75m Eurobond in October, it did so through its holding company and withheld the water utility's guarantee from the transaction. It planned to use most of the proceeds to refinance its controversial 14.9 per cent holding in South Wales Electricity, defined by the regulator as a diversification despite the benefits it was supposed to bring to the core business.

Unfortunately for Welsh Water, its acquisition of the stake led to a breach in relations between the two companies, with the result that no commercial benefits have been forthcoming.

The principal area of diversification by water companies to date has been the related business of waste management. A recent study on the links between the two industries by the brokers Hoare Govett identified waste management as a growth industry where the water companies have relevant skills to offer. Hoare suggested the main advantages brought to the business by the water companies were as follows:

- experience in dealing with regulators, including obtaining planning permission
- knowledge of local industries and their processes
- a plentiful supply of hydrologists and other scientists
- substantial land banks, not just the large rural sites used for collecting water, but also many suburban sites
- an extensive network of depots and other facilities
- an industry practised at the organisation of teams of people across a large geographical area.
- in some cases experience with incinerators.

Whether one agrees with the thesis that water companies are qualified, there is no denying that the sector has seen plenty of activity. The structure adopted by Wessex Water, via its joint venture with Waste Management Inc of the US, is held up as the model for the rest of the sector. Wessex managers have kept their main focus on the water business, leaving the waste subsidiary in the hands of more specialist managers.

The approach came to fruition last month when the joint venture company bought Wimpey's waste management subsidiary, the fifth largest UK waste company, for £105m. The purchase shot Wessex into the front-line of diversification, and was greeted enthusiastically by analysts and institutional investors.

After privatisation, Severn Trent was first off the mark when it launched a bid for another waste management group, Caird. That effort went spectacularly wrong after a disagreement on profit forecasts, and was subsequently held up as an example of naivety on the part of the former public sector company. Severn Trent was left with the holding cost of a 30 per cent stake in Caird and a frustrating wait until it was free to bid again. In the meantime, its purchase of Biffa was consolation.

That deadline passed on October 24. It was (and it has been) widely assumed that Severn Trent would will renew its bid at some point, if only because the position of Caird's business would give the water company a complete geographical spread over the UK market for waste management services.

Indeed, Severn Trent is understood to have held discussions with the Office of Fair Trading on the question of whether a bid might stumble on the perception that regional monopolies would result. Those talks evidently came to an unsatisfactory conclusion, because the water company sold its stake in Caird within days of the last month's deadline. (Since the lapsed 100p per share bid, Caird's shares have risen to trade as high as 120p, so the water company faces the prospect of a much-increased price.)

While Ofwat has been careful to confirm that it is not a formal licence requirement that companies inform it of any planned significant diversification, it said in September that it expected to be consulted.

In addition, and perhaps more worrying for the sector in the longer term, Ofwat is currently undertaking a study on transactions between core businesses and associated companies within the group.

The regulator wants to establish whether so-called enterprise activities are receiving cross-subsidies from the core. If subsidies are discovered, Ofwat then plans to issue precise guidelines on cost allocations.

Managing a water company clearly requires constant vigilance as well as tact.

**Andrew Freeman**

Thames Water uses a unique £3.5m vessel, the Bubbler, to pump oxygen-enriched water into the river - thus improving the environment for fish, which "breathe" oxygen in water. The electrically-propelled craft is specially sound-proofed for the benefit of people living near the river. It is used to counter sudden drops in the level of dissolved oxygen in the river, which often follow storms. In the 1950s and 60s there were few fish in the Thames Tideway but today more than 100 species have been monitorerd in the river and its estuary

# RECRUITMENT

## JOBS: Headhunter reports approaches from youngsters offering their services free of charge

# Mystery of the would-be amateur workers

"NEVER mind how many assorted middle managers you can offer me for very reasonable monies," the Jobs column finally told headhunter John Courtis. "Tell me about the folk who're writing in volunteering to work for nothing."

My request was prompted by a brief reference to the said would-be amateur workers in Mr Courtis's latest newsletter. All it revealed was that they offer to toil unpaid "for the first few months to get their toes in the door".

But before going any farther, I'd better point out that my inquiry about them does not betoken loss of interest in managers and the like with a more professional approach to the jobs they are increasingly hard put to find. On the contrary, the recession's effect on Britain's middle-classes is in danger of becoming a too frequent concern.

Only a fortnight ago (Stu having intervened last week) I sounded off about the disappearance, perhaps for ever, of many of the essentially information-handling jobs that for generations have provided careers for the progeny of better-off families. And, indeed, it was the same concern that sparked my inquiry about the volunteers.

Since the summer, well over a dozen have apparently written to headhunter Courtis out of the blue, and sadly in vain. The reason is that his business is to find people for jobs brought to him by client organisations, not jobs for people who write to him speculatively, whether they want paying or not.

So he tells them to write directly to employing concerns – although he does so sympathetically, he says, because hardly any of the volunteers has had a job before. They are predominantly graduates of one sort of another left stranded by the cuts in campus recruitment.

What he did not know about them, however, was the thing I most wanted to find out. It is how they propose to fund themselves during months of unpaid work. After all, if – as I suspect – the majority would get the money from their parents, the effect of the white-collar axe could well be felt not just by its present victims but by the next generation down.

The volunteers are presumably right to think that their free-of-charge efforts would give them a preferred chance of a proper job later on. So the children of better-off families left unscathed by the recession would be gaining an advantage over the children of parents hit by same and hard pressed to pay their own way.

It puts me in mind of one of P G Wodehouse's characters – well bred but on his beam ends – who remarked to an older friend how unfair it was that those with the folding stuff got richer and richer whereas those without it went from poor to worse. "Do you know," the friend replied, "I put precisely the same point a while ago to a chappie called Karl Marx, and he said there might be an idea for a book in it."

But, as I can only speculate about the volunteers' funding, my suspicion may of course be entirely wrong. So if any readers are acquainted with would be amateur workers, or if some of them happen to be in the congregation, I would like to hear their views.

MEANWHILE let's turn to folk who are still paid for their efforts in 20 of the umpteen lands covered by the salary and living-costs surveys of the Employment Conditions Abroad consultancy. Anyone wanting to know more about ECA – a trade association advising some 700 international companies which subscribe to it – should contact Wendy Greathead at 15 Britten St, London SW3 3TY; tel 071-351 7151, fax 071-351 9396.

My table below refers to four different ranks of executives in each country. They range upwards from a junior and then a middle manager in a sizeable division of a big group, to the head of a function such as marketing and finally the head of the division as a whole.

| Country | Junior manager | | Middle manager | | Head of function | | Head of division | |
|---|---|---|---|---|---|---|---|---|
| | Gross pay £ | Buying power £ | Gross pay £ | Buying power £ | Gross pay £ | Buying power £ | Gross pay £ | Buying power £ |
| Hong Kong | 18,682 | 18,267 | 29,480 | 27,536 | 42,635 | 39,824 | 63,610 | 59,415 |
| United States | 25,779 | 23,048 | 35,326 | 29,672 | 48,898 | 39,165 | 68,978 | 52,736 |
| Switzerland | 35,385 | 22,805 | 46,885 | 28,722 | 65,219 | 37,420 | 90,079 | 48,735 |
| Germany (west) | 28,497 | 18,800 | 39,081 | 25,774 | 55,463 | 35,594 | 82,338 | 49,176 |
| Canada | 22,623 | 18,806 | 31,255 | 24,074 | 45,095 | 32,186 | 60,014 | 40,570 |
| France | 22,084 | 16,831 | 30,829 | 22,773 | 44,037 | 30,579 | 61,846 | 41,157 |
| Spain | 21,938 | 15,750 | 31,186 | 21,466 | 44,577 | 28,668 | 64,659 | 37,483 |
| Italy | 23,216 | 14,898 | 32,681 | 20,115 | 47,026 | 27,275 | 67,708 | 37,510 |
| United Kingdom | 18,758 | 15,015 | 25,017 | 19,603 | 35,027 | 26,163 | 48,280 | 34,115 |
| Belgium | 24,933 | 16,141 | 34,983 | 20,139 | 49,900 | 25,532 | 71,216 | 32,624 |
| Netherlands | 21,775 | 15,992 | 30,274 | 20,302 | 42,875 | 25,553 | 57,775 | 31,761 |
| Australia | 18,545 | 15,118 | 25,455 | 18,928 | 33,383 | 22,746 | 45,980 | 29,608 |
| South Africa | 12,335 | 12,966 | 16,366 | 16,238 | 22,804 | 21,336 | 31,511 | 28,229 |
| Ireland | 18,993 | 13,275 | 25,459 | 16,323 | 34,182 | 20,235 | 45,315 | 25,229 |
| New Zealand | 13,524 | 10,827 | 17,988 | 14,078 | 24,059 | 18,498 | 32,312 | 24,509 |
| Finland | 22,970 | 12,156 | 30,202 | 14,608 | 40,480 | 18,041 | 53,975 | 21,998 |
| Denmark | 25,289 | 12,149 | 32,143 | 13,888 | 43,302 | 16,538 | 64,799 | 21,641 |
| Greece | 11,657 | 9,678 | 16,272 | 12,794 | 23,906 | 18,144 | 32,294 | 23,546 |
| Norway | 18,954 | 11,669 | 25,122 | 14,055 | 33,627 | 16,987 | 43,496 | 20,390 |
| Sweden | 20,151 | 10,544 | 27,560 | 13,294 | 37,566 | 17,009 | 49,695 | 21,511 |

In each case, the table gives two sets of figures. The first is typical gross pay consisting of salaries plus bonuses which are fixed as opposed to varying with profits or such. The second figure translates the gross pay into buying power.

To calculate it, ECA starts by turning the gross sum into net pay by deducting the tax and like charges standard for a native of the country who is married with two dependent children, and adding back the normal family allowances. The net pay is then turned into purchasing power by adjusting for price variances shown by surveys of executives' living costs. Alas, for technical reasons, the adjustments take no account of housing costs. The other currencies have been converted to sterling at the rates of September 30.

As buying power is what counts, the difference therein between the least and most senior of the four executives may be seen as a gauge of the incentive in each land to get to the top. Much the biggest is in Hong Kong whose division boss has over three times the purchasing power of the junior manager. The smallest is Norway's 75 per cent advantage at the top. In the UK the difference is 127 per cent.

**Michael Dixon**

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Please write with full career details, listing separately any companies to whom your application should not be forwarded. All applications will be treated in the strictest confidence.

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Applications clearly marked "Post of Partnership Secretary" should be addressed to the Partnership's Accountants:

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Applications enclosing full career details should be sent in *strict confidence to:*

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*Director Personnel,*
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**Please reply to Ms Patricia Donohue**
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## ACCOUNTANCY COLUMN

# More than one way to respond to insolvency

**Andrew Jack** on the lessons to be learnt from the rescue of Chancery, a financial services group

THE RECONSTRUCTION of Chancery, a small banking and financial services group, may have had scant attention when it was approved by shareholders and creditors last week, but it represents a significant milestone for insolvency practice.

Mr Colin Bird, partner in charge of the corporate reconstruction and insolvency group at Price Waterhouse, and one of the court-appointed administrators for Chancery, believes last Thursday marked the first time a public company has been rescued through administration since the process was introduced under the 1986 Insolvency Act.

He also thinks it is the first time auditors have signed the accounts of a company in administration. In October, Arthur Anderson approved accounts for the year to March 31 1991, although Chancery went into administration on February 18.

Price Waterhouse's experiences provide valuable lessons on how administration can work, in one of the first successes since the procedure was introduced under the act. It also highlights some of the most important weaknesses in how the law allows the process to operate.

Chancery was founded in 1977 as Chancery Securities by four chartered accountants. It became the first merchant bank to join the Unlisted Securities Market in 1985.

Aside from the parent bank, there were 23 subsidiaries, specialising in factoring, hire purchase instalment credit, stockbroking and other corporate financial services.

However, its vulnerability to changes in the property sector – which grew to nearly two-thirds of its loan book – became clear last December when it made provisions of £3.5m and unveiled half-year losses of £1.3m.

Then on Friday February 15 this year, the shares dropped 6p to 36p and trading was suspended on speculation that it would launch a rights issue to boost liquidity. Instead, it appeared in the High Court the following Monday to request that it be placed in administration.

Colin Bird and Mark Homan of Price Waterhouse were appointed administrators, after presenting a plan to reconstruct Chancery, which they believed had run into liquidity problems. They faced the challenge of saving a group in which the parent bank alone had debts of £130m and a loan book of £142m.

Companies become insolvent when they do not have sufficient assets to cover their debts, or are unable to pay their debts when they fall due. A number of different procedures may follow.

- The creditors may call in insolvency practitioners as "administrative receivers", who aim to recover the debts through sales of businesses or assets within the company.
- They may also – rarely – vote for a company voluntary arrangement, where the management itself undertakes a restructuring to rescue the business.
- Shareholders may act, when backed by the creditors, to place the company in creditors' voluntary liquidation, which winds it up and distributes remaining assets to creditors.
- Alternatively, the court may place the company in compulsory liquidation, and appoint an official receiver.
- Since the 1986 act, there has also been a fifth option. The court, usually as the result of a petition by the company, can appoint an administrator, with the aim of rescuing and reconstructing the company. The administrator then normally has three months to present a formal rescue plan to creditors, at which point they can vote in favour of a company voluntary arrangement.

> Receivership may save the individual businesses, but not the whole company. It is not much good for the shareholders.

There do not appear to be any statistics to document the proportion of cases falling into each category. However, a recent estimate by Cork Gully, the insolvency arm of Coopers & Lybrand Deloitte, suggests that 50 per cent of insolvent companies pass into creditors' voluntary liquidations. A further 30 per cent are subject to compulsory liquidation, and 17 per cent enter administrative receivership. Only 2 per cent go into administration and 1 per cent to company voluntary arrangements.

"The problem is that people do not understand administration," says Colin Bird. "It has certainly caused a lot of confusion." He says administration is commonly confused with administrative receivership. Receivership may save the individual businesses but does not save the company. It is not much good for the shareholders."

He cites his experiences with Chancery to illustrate the point. He says he kept receiving approaches from executives offering to buy parts of the company and had to explain diplomatically that nothing was for sale.

After it was appointed by the Courts in February, Price Waterhouse put two separate teams into Chancery: one to run the company as administrators, and the other to put together a reconstruction plan. That continued once the creditors had voted to approve the plan in May, until their vote last week to accept the restructured business. Now it simply needs formal ratification in the courts in December.

It emerged early on in the administration that Chancery was not just suffering a cash flow crisis. It had net liabilities of £21.9m. By the time the full restructuring plan had been developed for last week's creditors' meeting, it included proposals to appoint two new directors, reschedule £90m debts over five years, and convert the remaining £40m of debt into equity, which shrank the existing shareholdings to just 5 per cent of the total. It had net assets of £18.8m, and a five-year business plan which did not require Chancery to take any new deposits during the period.

Bird says the most important lesson of the whole administration was communication. Although the 1986 act gives no powers to committees of creditors once administrators are appointed, he formed separate groups of bankers, building societies and local authorities with deposits and loans to Chancery.

He was then in a position to keep them informed and adopt their suggestions throughout the drafting of the restructuring plans. That allowed him to win their support. "I spent half my life talking to people," he says. "But the final document did not surprise anybody."

All but 2 per cent by value of the creditors voted in favour of adopting the plan last week.

Overall, Bird is very positive about the potential for using administration to save large insolvent companies. However, Price Waterhouse charged about £3m for the process, a fee which he recognises would make restructuring impossible for smaller businesses.

"We need to be able to change the rules for small companies," says Bird. He would like to see the courts grant a breathing period of a few weeks' protection from creditors, so that a restructuring plan could be drafted without the need for administrators.

He has already approached the Department of Trade and Industry, and received what he believes was a sympathetic ministerial ear.

Five years after the idea of administration was introduced, it may well be time to review its progress.



## ACCOUNTANCY APPOINTMENTS

DART GROUP PLC

# Financial Controller

## To £45,000+Car — Bournemouth

▪ Dart Group PLC is a diversified aviation services, forwarding and distribution group whose subsidiaries operate a substantial fleet of freighter aircraft and temperature controlled distribution vehicles. Despite the tight economic environment, the Group has continued to grow substantially as a profitable and successful organisation with turnover exceeding £30m and now employs some 350 staff.

▪ Reporting to the Chief Executive, the Financial Controller will be fully responsible for the Group's accounting function ensuring that the tight financial disciplines intrinsic to the successful operation of the business are maintained. To further enhance these, there is a need to up-grade the existing PC systems in the near future.

▪ Candidates, aged 35-45 years, must be qualified accountants with good systems implementation, budgeting and cash flow forecasting skills. Essential requirements are the experience of working within a fast moving, demanding environment – e.g. distribution or retail, and the aptitude and commitment to perform in a hands-on, proactive and pragmatic manner.

▪ **Please send your career and personal details including current remuneration quoting Reference CA 373 to Carrie Andrews at Ernst & Young Corporate Resources, Becket House, 1 Lambeth Palace Road, London SE1 7EU.**

ERNST & YOUNG

# Financial Controller

## Central London — c.£40,000+Car

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▪ To be considered you will need to be an innovative, change-oriented qualified accountant who offers a demonstrable record of success in managing a commercial finance function, preferably with parent company reporting. A knowledge of US GAAP would be advantageous.

▪ **Please send your curriculum vitae to Nicolas Mabin, Ernst & Young Corporate Resources, Becket House, 1 Lambeth Palace Road, London SE1 7EU, quoting reference NM371.**

ERNST & YOUNG

# Financial Controller

## Children's and Educational Publishing

## c.£30,000+benefits — Warwickshire

▪ *This wholly-owned UK subsidiary of a US-based multi-national is currently generating significant profits on a turnover of £13m. The organisation is now planning a period of substantial further growth based upon the expansion of its direct marketing activities and the development of publishing in the educational and children's market.*

▪ *Reporting to the Managing Director and operating as a key member of the senior management team, you will be responsible for all aspects of finance, accounting, management information and company secretarial activities. Assisted by a staff of six, emphasis will focus on the preparation of accurate and timely monthly accounts, budgeting and cash management together with project management accounting.*

▪ *As a Qualified Accountant, ideally in your early 30's, you will possess relevant experience in managing an accounting function in a commercially and competitively oriented environment. Familiarity with computerised management information systems and company secretarial activities will be important. Previous exposure within the framework of an international organisation will also be advantageous. A flexible approach and high level of motivation linked with business and commercial awareness will provide you with the opportunity to make a major impact on the future success of the company.*

▪ *In addition to a basic salary, the remuneration package will include a profit and performance related bonus, company car and participation in company pension and private health schemes.*

▪ ***Please send full personal and career details in confidence to Stephen Bailey, quoting reference 1034B/FT at Ernst & Young Corporate Resources, PO Box 1, 3 Colmore Row, Birmingham B3 2DB.***

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- Involvement in the planning of the financial infrastructure of acquisitions, integration and disposals.
- *Monitoring implementation and maintenance of* strong internal control systems.

The above will account for 50-70% of the incumbent's responsibilities. In addition there will be a wide variety of ad hoc projects relating to the development of the business and specific areas as identified by Senior Management.

In order to both perform and develop the above role you must *clearly demonstrate:*

- Previous international experience, with a strong multi-cultural appreciation. US Accounting would also be ideal, but is not essential.
- A wide breadth of financial experience including group consolidations and statutory accounting (preferably multi-currency).
- *Experience of some wider tax and treasury issues* in an international environment would be ideal.

You will also be able to combine a 'hands-on' approach with an overall perspective and an ability to present a strong, credible presence as this role will involve exposure at the highest levels.

A second European language is highly desirable (preferably German or French) but not essential. Promotion prospects are excellent.

**If you feel that you fit the above profile you should write to Karen D. Wilson, BA, ACMA, Director at FMS, 5 Bream's Buildings, Chancery Lane, London EC4A 1DY enclosing a recent CV and a note of current salary.**

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# INTERNATIONAL TAX MANAGER

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Based at the Group's corporate head office the duties of the International Tax Manager will include the following:-

- co-ordinating and analysing the Group's international tax position
- initiating worldwide tax planning policies in line with business and corporate objectives
- providing tax advice on international acquisitions, disposals and reorganisations.

The ideal candidate will currently be working either in the international tax department of a firm of chartered accountants or performing a similar role in a commercial organisation.

You will be used to working with a high degree of autonomy and should possess the drive and initiative to undertake projects with substantial tax exposure.

To discuss this challenging opportunity further contact Graham King on 071-379 3333 or 071-226 4557 (evenings or weekends) or send a detailed CV to **Robert Walters Associates, 25 Bedford Street, London, WC2E 9HP (Fax 071-915 8714).**

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REGIONAL HEALTH AUTHORITY

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Working closely with other Directors and particularly the General Manager, you will be involved in defining policy and providing strategic leadership on a variety of issues (not just financial) throughout the region, whilst also advising upon, guiding and co-ordinating the allocation of resources at local level.

With significant experience at board and director level within a large and diverse organisation, you will be a quailified accountant with extensive financial, *corporate and staff management experience. You should be* capable of both comprehending and influencing the process of cultural change within an organisation and also possess an awareness and understanding of the economics of health care provision.

Critical, however, will be both a track record of, and an aptitude for a wider remit than simply your financial discipline. This role has a strong general management thrust and focus, and it is in these kinds of issues where the greatest challenge will arise – *testing in particular your skills to inspire,* build and maintain effective relationships, as well as being able to negotiate at all levels, not only throughout the region, but also with Government departments and other parts of the NHS.

The scope of this role can and will be varied according to the skills and strengths of the right candidate. Accordingly, it offers significant opportunities for growth.

If you see yourself as a corporate manager, innovative, able to lead and motivate whilst fundamentally very much a team player – *then write in* confidence with full CV, quoting reference H/1207. Alternatively contact Hamish Davidson on 071 939 6312 (during office hours) for an informal discussion and/or an information pack.

**Executive Selection Division,
Price Waterhouse, Management Consultants,
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# Finance Managers - Emerging Markets

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You will need:

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- ability to source and train local staff
- strong technical, analytical and organisational skills
- an enthusiastic, outgoing and diplomatic manner
- an international perspective

Future worldwide opportunities are outstanding for achievers.

If you can meet this challenge write in confidence to Fiona Davidson, Nicholson International (recruitment consultants) at Africa House, 64-78 Kingsway, London WC2B 6AH, quoting reference 9302 or call 071 404 5501 for an initial discussion or alternatively fax details on 071 404 8128.

NICHOLSON INTERNATIONAL

# FINANCE DIRECTOR

**Buckinghamshire** **c£35,000, car**

This is an unusual appointment in that it offers general management prospects with a broader commercial involvement. The client is a highly successful division of a plc and engaged in the manufacture of flexible packaging products for a wide ranging customer base on a number of sites. Reporting to, and working closely with, the Managing Director, responsibility is for the full range of financial management, reporting and controls with particular emphasis on margin improvement, systems development and commercial management aspects. Aged in their 30's, candidates should be graduate chartered or management accountants with experience at divisional director level in a change oriented manufacturing or process industry environment. The client is forward thinking and expansive, young and dynamic. The salary is supported by an excellent range of executive benefits and the position will appeal to those appreciative of the broader demands of general management. Please forward in absolute confidence a full curriculum vitae to Adderley Featherstone plc, 6 Lisbon Square, Leeds LS1 4LY. Tel: 0532 444074. Fax: 0532 451578.

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*"helping to solve the housing crisis"*

# DIRECTOR OF FINANCE

c£44,000
West London

Our client is a major charitable housing association with over 3000 affordable homes in management. The Association is committed to an ambitious programme of growth requiring an investment of over £30m per annum.

The Director of Finance is a key management position giving direction in financial policy and practice. The future success will depend on solving complex financial problems including risk appraisal and securing long term loans.

You will be a finance professional with keen business skills, be able to make decisions and apply them in a charitable environment.

If you have the right background and are willing to make a strong commitment to the objectives of the Association then this is an opportunity to achieve a high level of job satisfaction.

**Send CV by 5 December 1991.**
**For an informal discussion telephone Derek Joseph.**
**HACAS Recruitment,**
**20/24 Eden Grove,**
**London N7 8ED.**
**Tel: 071-609 9491**
**Fax: 071-704 7599.**

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*Connaught Mainland*

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# Group Financial Controller

## c£50,000 + Car
## South Midlands

Our client is a major international group in the High Technology sector, with a turnover in excess of £1 billion.

The Group Financial Controller will be responsible for board level statutory and financial reporting, investment appraisal, acquisitions and divestments; and have the commercial awareness to make a contribution to management reporting, budgeting and strategic planning.

Applicants must be Chartered Accountants, preferably with recent responsibility for statutory and financial reporting at the centre of a major group. A well organised self-starter is required whose technical expertise is combined with sound managerial skills.

Please apply in confidence, quoting reference L495 to:

Brian H. Mason,
Mason & Nurse Associates,
1 Lancaster Place, Strand,
London WC2E 7EB.
Tel: 071-240 7805.

Mason & Nurse
Selection & Search

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# Director of Administration & Finance

## A young, high profile group in the service sector

West End c.£50,000 + car & benefits

Our client is a highly regarded group of private companies whose success lies in providing a range of integrated services to an impressive list of blue chip clients. The company employs 100 staff and operates from headquarters in the West End with 3 regional offices. The Board now wishes to appoint a senior executive who will take responsibility for all the administrative and financial functions of the Group.

The post holder will have two main areas of responsibility, the most significant being financial, assuming responsibility for the Group accounts, treasury and company secretarial matters. He or she will also play a significant administrative role in taking on the day-to-day general management of the company, making improvements where necessary as well as taking overall charge of the personnel function.

The diverse nature of this position means that it will require an exceptional individual to successfully undertake all the roles. First and foremost we seek a graduate chartered accountant who has worked for some years in the service sector and fully appreciates the importance of marketing and presentation in such an environment. He or she must possess excellent interpersonal skills, organisational ability and the enthusiasm to motivate the entire staff to work as a cohesive team.

As the Group enjoys a young profile it is envisaged that the position would be filled by a person in their 30's. This should not preclude other individuals from applying. Interested candidates should send an up-to-date CV to Anna Ponton, as well as day and home telephone numbers and remuneration details, quoting reference B6998.

KPMG Selection & Search
2-3 Dorset Rise, Blackfriars, London EC4Y 8AE

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# Finance Director

c£55k, Car and Benefits

Bristol

**The National Rivers Authority is the strongest integrated protection agency in Europe, improving all aspects of the water environment in England and Wales. The NRA's 7,500 staff operate through the Head Office in Bristol and ten regional offices - providing a range of environmental and scientific services, and coordinating flood defence works. With an annual revenue budget of some £450 million, the Authority requires first rate financial and IT management throughout its operations.**

**The Director of Finance, reporting to the Chief Executive, is responsible for financial planning, control and compliance with Government financial requirements within the Authority on a national basis,- and will make a major contribution to the general management of the Authority and the introduction of IT therein. Taking functional responsibility for the ten regional finance teams and directly managing the compact headquarters finance team, you will develop financial strategy and processes, agree action plans, targets and performance measures, and develop mechanisms for monitoring policy implementation and effectiveness.**

**Aged over 35, with a degree/ MBA and professional qualifications, candidates should have established an outstanding track record in a large-scale well-organised company or public undertaking. Your hallmarks will be complete financial/IT credibility, the drive and vision to achieve progress within a strategic framework,- and excellent communications skills.**

**In return, you will receive a good level of remuneration, have a high visibility management role, and make a strategic contribution to improved river assets. The NRA is an equal opportunities employer.**

**Candidates should send a comprehensive c.v. or telephone for an application form to Howgate Sable & Partners, Arkwright House, Parsonage Gardens, Manchester, M3 2LF. Tel: 061-839 2000 quoting reference (F.T. 607E).**

NRA

Howgate Sable

ASSC FOUNDER MEMBER

EXECUTIVE SEARCH AND SELECTION

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# FINANCE DIRECTOR

**SW London** **£40,000 + car**

**AVESCO plc** a leading manufacturing and services Company in the Broadcast and Video Communications industry requires a Finance Director for one of its major subsidiaries.

The candidate should be a computer literate, commercially astute professional able to manage the finance function and make significant contributions to the overall development and success of the business.

Please write enclosing CV to: Mr C Maxwell at AVESCO plc, Venture House, Davis Road, Chessington, Surrey KT9 1TT. Tel: 081-974 1234

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**Dynamic 100$M**

North American Software and Hardware Group needs business orientated Finance Director who will eventually assume the Managing Director role. Avon Based. Remuneration appropriate to the Quality of Candidate.

Please send CV to: Box No A429 Financial Times, One Southwark Bridge, London SE1 9HL.

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*Price Waterhouse*

EXECUTIVE SELECTION

# Business Manager

## To become the best of the public sector, we are looking for the best in the private sector

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This pioneering organisation in the public sector is committed to the development of a new and innovative entrepreneurial culture. To this end they are not only introducing a total quality programme that will provide value for money, efficiency and cost effectiveness in all areas of their work, but also instilling the philosophy that customers must come first.

Reporting to the Director of Contract Services, you will be a key advisor to the major contracting functions of the organisation with budgets of some £40 million. This is a vital and challenging position as the successful candidate will be expected to nurture a competitive, entrepreneurial spirit, where the emphasis is on a combination of quality, greater efficiency and profit, within a department that has traditionally operated in a protected environment.

Ideally a qualified accountant or MBA with experience of managing at a strategic level within a commercial environment, you will have the knowledge to be able to build commercial business systems, integrating financial and personnel performance. The role requires the experience to prepare, monitor and evaluate budgets and trading accounts. In addition, as well as being an effective negotiator at all levels, you will have to demonstrate an ability to install business systems, monitor, report on, advise and motivate non-financial managers on commercial issues within their different business environments. Finally, you must possess the capacity to plan and forecast, both strategically and operationally.

Our client understands that to be the best in the public sector, they need to recruit the best from the private. And reward them accordingly. If you believe you're one of the best, please contact Hamish Davidson on 071-939 6312. Alternatively, write in confidence with full CV, quoting reference H/1204/FT to: Executive Selection Division Price Waterhouse Management Consultants Milton Gate, 1 Moor Lane London EC2Y 9PB Fax: 071-638 1358

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*Price Waterhouse*

EXECUTIVE SELECTION

# Senior Business Analyst

c.£40,000 + benefits Birmingham

We are recruiting on behalf of a major, Midlands based Plc, with a turnover approaching £800 million. Their impressive growth record and profitability is based on an uncompromising attitude towards excellence in serving their customers.

In order to provide a financial control service for the Corporate Financial Controller, encompassing newly acquired and emerging businesses, they now wish to recruit a Senior Business Analyst. The brief will be to form close working relationships with managers of emerging and newly acquired businesses to ensure that strong financial controls are in place. The Senior Business Analyst will also, in conjunction with the Financial Controller, plan, execute and interpret annual budgets and re-forecasts and monitor capital investment appraisals for all non-core businesses. The ability to assess business risks in newly acquired and emerging businesses is essential.

The position calls for a qualified Chartered or Cost and Management Accountant with experience in financial analysis within a major group. Candidates, who should be articulate and influencing, will have strong analytical skills and a wish to be involved in a problem solving role, within the group.

It is likely that the work will involve travel away from home.

Prospects in the medium term, for both career and personal advancement, are excellent.

Please write quoting reference MCS/8927 enclosing full career details and current salary to: Jim Mitchell Executive Selection Division Price Waterhouse Management Consultants Livery House, 169 Edmund Street Birmingham, B3 2JB

# COMPLETE FINANCE TEAM – LIFE ASSURANCE

**BRISTOL** **SALARY £30-£50,000 + BENEFITS** **AGE 28-40**

**New products, new systems, new management team, new business opportunities...**

Our client enjoys the critical mass to achieve their objective of becoming one of the UK's top Life Assurance Companies over the next five years. We are seeking to build a complete finance team to underpin this objective. In total a team of eight (some with Life Assurance experience) is sought initially. Reporting directly to the Financial Director will be at least two senior managers heading the differing accounting functions with substantial, dedicated teams supporting them. The challenge is to create the systems and the infrastructure in the following areas:

**FINANCIAL ACCOUNTING**
(External reporting and financial control)

- General Ledger
- Investment Accounting
- Statutory Reporting (Specific DTI experience)
- Unit Pricing (Processing services)
- Systems Liaison

**MANAGEMENT ACCOUNTING**
(Business Planning and Management Information)

- Strategic and Business Planning
- Financial Reporting
- Performance Monitoring (Including Embedded Value Analysis)
- Business Planning
- Cash Management

Preferably a graduate (or MBA); you will be a qualified accountant with strong interpersonal skills and experience of either Life Assurance Systems or large sophisticated management information and financial control systems. The excitement lies in the opportunity not only to import new techniques and to impart a value-added ethos but also, to participate in the building of a market-led finance function.

Please respond to: Adrian Wheale or Tony Hodgins, Wheale Thomas Hodgins PLC, Executive Resourcing, 9 Unity Street, College Green, Bristol BS1 5HH. Tel: 0272 [illegible]

WHEALE·THOMAS·HODGINS·PLC

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**Price Waterhouse**

EXECUTIVE SELECTION

# Corporate Chief Accountant

**c.£45,000 + benefits** **Birmingham**

We are recruiting on behalf of a major, Midlands based Plc, with a turnover approaching £800 million. Their impressive growth record and profitability is based on an uncompromising attitude towards excellence in serving their customers.

They now wish to recruit a Corporate Chief Accountant, who will play a vital role in providing a full financial and management accounting service to the group, ensuring that accounts are prepared to time and quality. Working closely with the Financial Controller and Financial Director, the incumbent will be responsible for the development and promulgation to subsidiaries of group financial policy. The small department will also act as a centre of excellence, on technical accounting issues, for subsidiary Company Financial Directors.

The position calls for a graduate Chartered or Certified Accountant, a technically strong problem solver with proven abilities in financial analysis and interpretation. A background in driving systems implementation in a major organisation is essential.

Candidates should be articulate and tough minded individuals with the determination and flair to succeed in a prestigious and high profile organisation.

Please write quoting reference MCS/8928 enclosing full career details and current salary to:
Jim Mitchell
Executive Selection Division
Price Waterhouse
Management Consultants
Livery House
169 Edmund Street
Birmingham
B3 2JB

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*Turnbull & Asser* Ltd

# Finance Manager (Director Designate)

**London SW1** **£Excellent + Car + Benefits**

Turnbull & Asser Ltd, a subsidiary of House of Fraser PLC, is widely regarded as the world's premier shirtmaker. Based in Jermyn Street, the Company is involved in every aspect of the design, manufacture, retail and export of the highest quality shirts, silk ties and accessories. A considerable proportion of merchandise is bespoke, produced for a prestigious clientele.

The Finance Manager will assume total responsibility for the finance, systems and administration functions of the business. Key immediate requirements will focus on significant improvements to the scope, quality and effectiveness of existing systems, with particular emphasis on performance analysis and management reporting. The successful applicant will be expected to play an increasingly influential role in the evaluation of business development opportunities and the formulation of medium and long-term strategies.

Candidates should have an excellent grounding in operational financial management, preferably gained in a high quality retail or service-led environment. A high degree of self motivation coupled with maturity and well developed interpersonal skills are essential qualities.

Interested applicants should forward a comprehensive CV, quoting ref: 2646 to Alan Dickinson FCMA or Sajid Baloch MBA, Executive Selection Division, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH (Tel: 071-831 2000).

**Michael Page Finance**
Specialists in financial recruitment
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Nottingham Manchester Leeds Glasgow & Worldwide

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*c. £70,000 package + options + benefits* *Internationally Branded Apparel* *London*

# Finance Director – Europe

**First class business manager with finance orientation and strong European credentials sought to join senior management team of £160m UK Plc with distinctive international image and successful brands. Challenging remit to assist Chief Executive in implementing a growth strategy for the 1990's by driving professional business management techniques across £100m European business. A highly strategic and commercial role with real opportunity to influence performance and direction of a business in a creative, fast moving environment.**

THE ROLE

- Reporting to and working closely with the Chief Executive – Europe, with full accountability for optimising financial management and reporting disciplines across subsidiary companies.
- Forging closer links with senior operating management, reviewing progress against stated goals, setting and monitoring action plans.
- Prominent, active role linking operations to Group Board, delivering real added value to the businesses and contributing to overall strategy.

THE QUALIFICATIONS

- Highly motivated qualified accountant with applied financial and analytical skills gained in blue chip professional environment together with disciplined Plc reporting experience.
- Successful track record in a distribution or brand marketing environment with international dimension, implementing MIS and controls.
- Commercial and market oriented focus, with maturity and stature to gain respect across the business. Strong preference for European languages.

London 071-973 0889
Manchester 061-941 3818

**Selector Europe**
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref F524111L,
16 Connaught Place,
London, W2 2ED
071-973 0889

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# Divisional Finance Director

**Home Counties** **c £50,000 + Bonus + Car**

Our client, the Property Division of a major plc, continues to expand profitably its activities in Commercial and Residential Development throughout the UK and Europe.

Growth, in the increasingly complex business environment, has necessitated the appointment of a high calibre Finance Director.

The role demands a "hands on" approach to efficient financial management, encompassing legal, taxation, treasury, accounting and systems development issues. Operating as a key member of the senior management team and responsible for a small, motivated accounts department, the Finance Director must make a positive contribution to the controlled growth and profitability of the Division.

Technically excellent, probably aged 35-45, commercially aware and able to communicate effectively through a Group structure, candidates must be qualified accountants with previous experience of the property development sector.

If this position is of interest, please forward a detailed curriculum vitae, quoting ref 1101 to Diane Forrester ACA, Executive Selection Division, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.

**Michael Page Finance**
Specialists in financial recruitment
London Bristol Windsor St Albans Leatherhead Birmingham
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# *Finance Director*

Our client is a medium sized plc with a turnover in the region of £12-15 million per annum in the engineering sector.

A Finance Director is required to assist with both the existing business and to diversify into new areas. Candidates must be qualified accountants and able to show a mature and experienced background - not necessarily in engineering. An above average remuneration package will be negotiated.

Applications should be sent in confidence to Box No.A1690
Financial Times, 1 Southwark Bridge, London SE1 9HL

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# Treasurer

To £35,000 + Excellent Bonus + Benefits — North Wales

**The top treasury position in a dynamic and successful large quoted plc. A high profile role offering rapid career development prospects.**

**THE GROUP**
- The UK's leading discount grocery retailer with 750 stores.
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- Ambitious expansion plans for the 1990's.

**THE POSITION**
- New position with overall responsibility for the whole range of treasury activities.
- Focus on cash and liquidity management, foreign exchange, bank relations, financing and systems development.
- Member of Treasury Committee, contributing to all aspects of treasury strategy; first rate career advancement opportunities.

**QUALIFICATIONS**
- Graduate, preferably qualified Accountant or ACT (Dip), with at least 3 years' experience of treasury within a large corporate environment.
- Strong cash management skills; systems experience; analytical mind; eye for detail; age 27-40.
- Drive and enthusiasm; results-oriented; self motivating; shirt-sleeves approach.

Please write, enclosing full cv, Ref MK4784
**Courthill House, Water Lane, Wilmslow, Cheshire, SK9 5AP**

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# FINANCIAL CONTROLLER

C. London

£40,000 + Benefits

Having clearly established itself as a pre-eminent organisation within the consulting services sector, this international group is poised to further compound on its achievements to date.

As part of the senior management team, you will take responsibility for an established finance department engaged in the production of monthly financial and management information and will assess the current systems and methodologies in place with a view to improving efficiency, controls and contributing to the development of the London operation.

You will spearhead a number of ad-hoc projects designed to improve profitability and cost effectiveness and will liaise with professionals of the highest calibre on a worldwide basis.

You will be a qualified accountant with at least three years commercial experience gained within a service industry at management level. Other vital attributes will include the ability to manage and motivate staff combined with first class presentation skills, tact, diplomacy and a highly analytical mind.

*Interested candidates should contact* ***Michael Herst*** *on 071-629 4463 (daytime), 081-502 1247 (eves) or write to him enclosing a full CV quoting MH345.*

HARRISON WILLIS
EXECUTIVE SEARCH & SELECTION
39-40 Albemarle St., London W1X 3FD. Tel: 071-629 4463
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# Taxation Accountant

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| *For:* | Nestlé Holdings (U.K.) PLC. |
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| *CV to:* | Mrs Jenny Forsyth, Nestlé Holdings (U.K.) PLC St George's House, Croydon, Surrey CR9 1NR. (Please include full salary details). |

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# Finance Director

**West Yorkshire - £40,000 Package, Car, Benefits**

Outstanding opportunity for talented finance professional to take broad commercial role and complement successful management team in the ongoing development of the business. Highly profitable £25m turnover subsidiary of well respected UK plc operating in an International marketplace.

**THE ROLE**

Complete responsibility for Finance and Data Processing functions. Motivate, lead and develop teams • Total involvement in commercial and strategic decision making process. Support Managing Director in developing the business both organically and through acquisition • Develop and refine existing Management Information Systems. Improve Financial Modelling and Forecasting to enhance profitability.

**THE QUALIFICATIONS**

Qualified Accountant. Aged 35-40. Strong commercial acumen with a practical approach to problem solving • Desire to be involved in all aspects of the business. Ability to communicate at all levels of general and financial management • Previous experience of successful systems implementation in a manufacturing environment. Strong grasp of financial management in a positively managed company.

Please reply in writing to Townsend House, 30 Monkgate, York YO3 7PF enclosing a full curriculum vitae and quoting Reference RBH 1002. Telephone: 0904 670648 Facsimile: 0904 611079

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# GROUP FINANCIAL CONTROLLER

**Warwickshire — c£37,500 + car**

This medium sized publicly quoted British Group has diverse interests in the UK and North America. The Head Office is located in attractive countryside, where its strategy is formed and implemented.

The position reports to the Group Financial Director and is a vital link with the subsidiaries. The main thrust of the duties is in monitoring the businesses, requiring involvement with every unit's operating management, and regular reporting to the Board. Additionally, the successful candidate will contribute to strategic decision evaluations and to the ongoing development of information systems.

Candidates, probably aged 27-35 years, should have a degree and be qualified Chartered Accountants, with commercial or industrial experience. High level interpersonal skills and natural authority are needed. Benefits and prospects are first class.

**Please write in confidence, enclosing detailed CV, and quoting referenceFT/ID to Fox Valentine Limited, 25 Bedford Row, London WC1R 4HE, Fax 071 831 3127.**

FOX VALENTINE LTD
Recruitment Consultants

# FINANCE DIRECTOR

**SW London — c£37k + car**

Our client is an expanding subsidiary of a quoted British Plc which has grown consistently over the last five years. A leading specialist services company with a £35 million turnover, this subsidiary seeks a strong, highly commercial Finance Director.

Working closely with the Managing Director, the Finance Director will have responsibility for the entire finance function, with particular emphasis on monitoring and influencing the progress, profitability and direction of existing business areas. As the company continues its rapid growth, the acquisition and integration of other businesses will also be important.

Authority and maturity are essential attributes for this role, as is the ability to negotiate and influence at senior levels. Applicants, aged 33-45, must be qualified accountants with significant experience in a service or contract based industry. The company offers excellent benefits and the opportunity for further career development.

Interested applicants should send or fax a copy of their cv with details of their current salary package quoting reference 247 to:

ALDERWICK McLINTOCK

SEARCH & SELECTION
SUITE 303, BLACKFRIARS FOUNDRY,
156 BLACKFRIARS ROAD, LONDON SE1 8EN
TELEPHONE: 071-721 7283 FACSIMILE: 071-721 7288

# EXCITING AND PRESTIGIOUS ACCOUNTANCY CAREER POSITIONS

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Our client is a major Office in the U.A.E. Due to recent expansion, the Office is now seeking to employ top qualified professionals and advisors to fill the following prestigious positions.

## HEAD OF INTERNAL AUDIT

The appointment of Internal Auditor is designed to enhance existing internal control measures. The main duties of the Internal Auditor will be to control and develop audit procedures and to contribute to the improvement of financial control, reporting and operational procedures within the Office. The position reports directly to the General Manager.

## CHIEF ACCOUNTANT

The Chief Accountant will be responsible for managing the Accounting Division and for providing advice on all accounting matters, ensuring compliance with Government Rules and Regulations and generally accepted accounting principles. The successful candidate will be expected to contribute to the development and implementation of computerised accounting systems.

The ideal applicant for the above two positions will be a qualified accountant (ACA, CPA) with extensive experience in accounting, auditing and computers. He should have at least three years practical management experience in a computerised accounting environment. He must be a mature bilingual (Arabic/English) individual aged 30-40 and possess excellent management and communication skills combined with European and or North American education and experience.

An attractive tax free salary will be paid plus free accommodation, annual return airfare on leave and other associated benefits.

Interested candidates should forward their CV together with recent photo before 15 December 1991 to:

Ernst & Young
Executive Recruitment Division
P O Box 136, Abu Dhabi, United Arab Emirates

Fax No. 342968 — Attention: Mr Sami Ali

# FINANCIAL CONTROLLER

**WOKING, SURREY Up to £30,000**
**BE IN AT THE START**

**The new Peacocks Arts and Entertainment Centre is due to open in April 1992**

The complex:
- 1300 seat New Victoria Theatre
- 230 seat Rhoda McGaw Theatre
- 3 screen 1000 seat cinema
- Fantails, a performance led nightclub
- Theatre restaurant/cafe-bar
- Function Suite/Bars

The challenge:
- Recruit, motivate and develop a team of high quality accounts staff
- Manage installation of accounting systems and controls
- Develop, set-up and maintain effective policies and procedures
- Provide accurate, up to the minute performance reports and forecasts
- Prepare and present business plans and reports

The ideal candidate will be a qualified/part qualified accountant who can demonstrate success as a finance manager/controller with experience in the computerisation of accounting systems. A "hands-on" team oriented and pragmatic approach is essential as are excellent communication/interpersonal skills.

The Peacocks Arts & Entertainment Centre

If you are interested in this unique opportunity then please write enclosing your CV to James Pope, Personnel Manager at: Woking Turnstyle Ltd, 40-42 King Street, London, WC2 8JS
Closing date for applications:
Friday 29th November 1991

# Management and Computer Audit

**Burton upon Trent — Competitive Packages**

The Group Internal Audit function is ideally placed to have a major input on the controls and procedures of the Group as a whole and we are now looking to strengthen our team with the following appointments:-

**MANAGEMENT AUDITORS £20 – 25K + Car**

You will be involved in a broad range of reviews and audits covering operational controls at several levels of management, including executive controls.

**COMPUTER AUDITORS £20 - 25K + Car**

You will undertake audits of a variety of commercial applications as well as a full range of hardware installations from mainframes to mid-range computers.

Both positions require you to make practical recommendations for improving the efficiency and profitability of the Company as well as expressing an opinion on the adequacy of its controls.

The positions would suit qualified accountants with two years PQE in public practice, or computer audit respectively. Considerable commercial awareness and excellent communication skills are required.

Both opportunities offer a significant amount of U.K. and International travel. Competitive salaries are supported by a benefits package you would expect from a major company.

Please write to: Mr. P. Tomkins, Bass Plc., 137 High Street, Burton-on-Trent. Staffordshire DE14 1JZ.

Bass

# CHIEF FINANCIAL OFFICER-ROMANIA

**Description of Position:** Responsible for design and implementation of financial reporting systems for franchise operation of major international food and beverage company.

**Requirements:** Demonstrated ability in developing financial reporting systems; working knowledge of U.S. GAAP accounting principles; accounting experience in manufacturing/distribution operations; ability to work in complex business environment, preferably in international arena, high level of energy.

**Languages:** English, required; Romanian or French, a plus.

Compensation includes fringe benefits with potential equity participation incentives.

Please send resume, salary history and requirements to
Personnel Manager, 127 East 73rd Street, New York, 10021 or fax to 212 439 9450.

# FINANCIAL CONTROLLER

**Fast-moving Computer Company**

Package c£50,000 + Car

West London

Our client has become a dominant force in the marketing and sale of the new generation Unix workstations – a market currently growing at 50% per annum.

With a blue chip and international financial institution client base, their outstanding profits, balance sheet and growth record are backed by quality management and a continuing commitment to customer service and technical support.

Reporting to the MD, the Financial Controller will influence the strategy and development of the business as well as managing all aspects of finance, accounting and controls within the company. Appointment to the Board is anticipated in due course.

For this demanding and challenging opportunity the successful candidate, a graduate chartered accountant (27-33 years), must possess high levels of commercial judgement and strategic vision as well as technical, management and communication skills – preferably gained in a sales environment.

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# WORLD COMMERCIAL VEHICLES



**While demand for commercial vehicles in most of Europe and North America has slumped, German manufacturers have enjoyed a buoyant domestic market. Kevin Done traces the fortunes of truck makers and looks ahead to an improvement in 1993**

## Truck sales at braking point

COMMERCIAL vehicle makers, and in particular the truck producers, are enduring harsh challenges with sales continuing to fall in North America and in many western European markets.

Sales and production have also declined for two years in Japan in 1989-90, though less dramatically. Only strong demand for four-wheel-drive sports/utility vehicles has produced a small overall growth in Japanese commercial vehicle output and sales this year, with most market segments still in modest decline.

In Europe only Germany has brightened a bleak picture with strong growth, fuelled by the process of reunification, compensating for declines elsewhere. This pattern is expected to reverse in 1992, however, as a modest recovery begins in much of Europe, but German sales weaken.

In North America and in western Europe some leading truck makers continue to accumulate heavy losses under the impact of falling sales, and the renewed pressures on margins are likely to lead to further restructuring.

In western Europe truck makers are confronting the de-regulation of the road haulage industry with the creation of the single market from the end of 1992 and its uncertain impact on demand.

Western European truck makers continue to dominate the world heavy truck industry and are looking to take advantage of new opportunities in eastern Europe and Asia. In light commercial vehicles the Japanese makers are most actively expanding worldwide.

The unprecedented imbalance in demand across Europe in the past two years is having a fundamental impact on the fortunes of individual truck makers. The German producers MAN and Mercedes-Benz, buoyed up by the strength of the German market, have enjoyed bulging domestic order books, while producers most exposed to the woes of the UK market, such as DAF of the Netherlands and ERF, the last independent, publicly-quoted UK truck maker, have plunged into loss and have been forced to scale back production and cut workforces.

The contrast in the recent fortunes of DAF and MAN, the two medium-sized European commercial vehicle makers, reflects most starkly the divergence in demand across Europe. DAF, which merged with the Leyland truck and van operations in 1987, derives nearly a third of its turnover from the UK, which is the most depressed of the big European markets. UK truck sales have more than halved in the past two years.

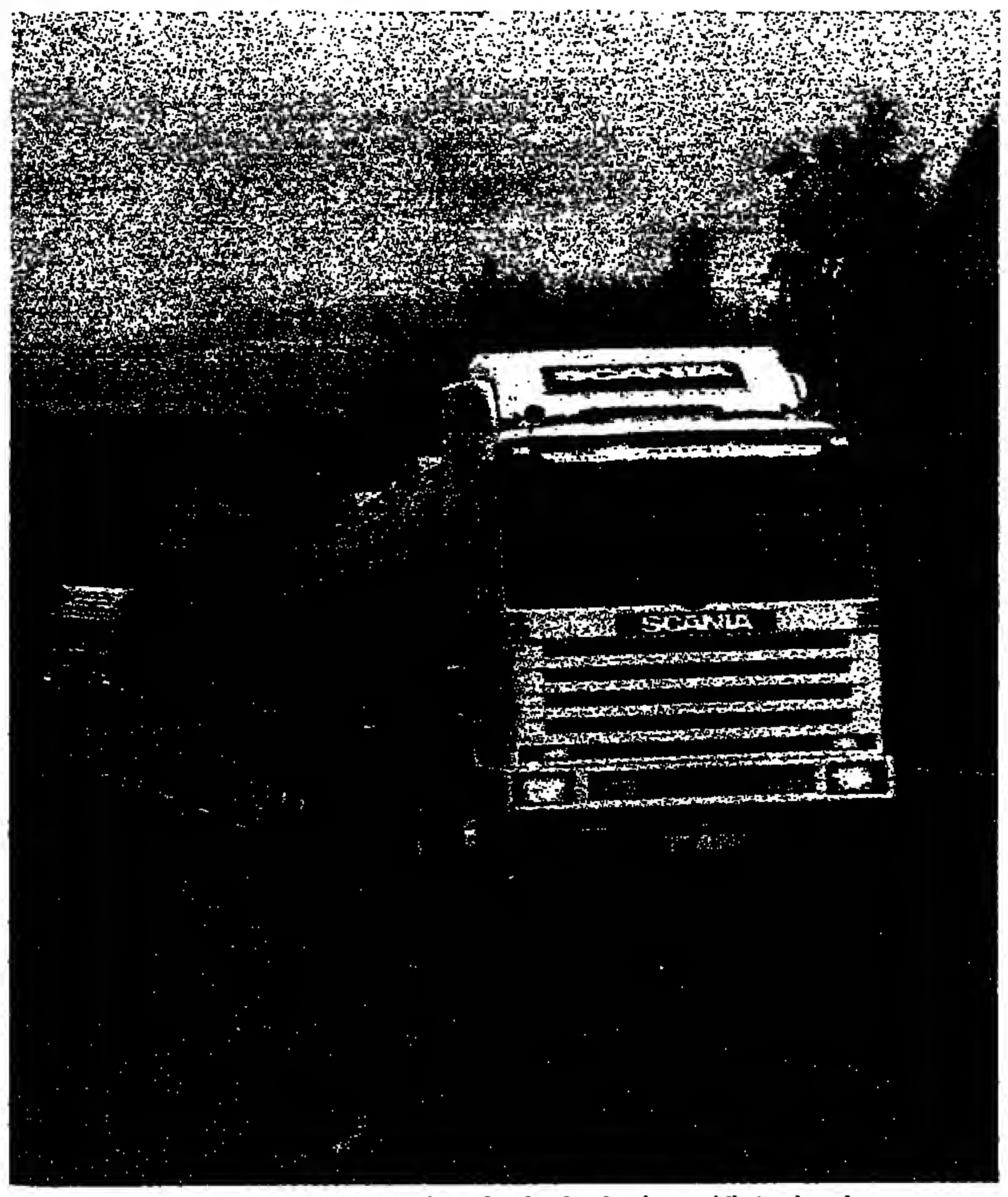
The company plunged into a net loss of Fl 179.1m ($96.7m) in the first six months of this year from a loss of Fl 32.1m in the corresponding period a year ago and has been forced to raise new capital to bolster its deteriorating finances. Production has been cut back drastically to reduce bloated stocks, and the workforce has been cut by around 12 per cent in less than two years.

Its fortunes have changed with alarming speed reflecting the volatility of the European truck market. DAF's losses for the whole of last year totalled Fl 227.6m, including restructuring costs of Fl 78m, and it failed to pay a dividend, after achieving a record net profit of Fl 172m a year earlier.

By contrast, MAN Nutzfahrzeuge of Germany, which is dependent on the German market, has achieved a record financial performance. Helped by the acquisition of the Steyr truck operations in Austria, its turnover in the year to the end of June jumped by 33.5 per cent to DM7.39bn ($4.56bn), the value of new orders booked in the year jumped by 52.8 per cent to DM9.05bn – domestic orders alone increased by DM2.4bn or nearly 70 per cent – and after-tax profits rose by 24 per cent to DM196.6m.

The workforce of MAN Nutzfahrzeuge, the commercial vehicles subsidiary of MAN, the German engineering group, rose in the last financial year by 4,467 (including 2,700 Steyr employees) and vehicle production rose by 11 per cent to 38,200 against the background of a western European truck market (above six tonnes) that declined by 8 per cent to 270,000.

Elsewhere in the European industry Renault Véhicules Industriels (RVI), the commercial vehicles subsidiary of Renault, the French state-owned car-maker, has reported a collapse in profits for the first half of 1991 to FFr28m ($5.02m) from FFr517m in the same period last year. Sales fell by 14 per cent to FFr13.8bn from FFr16.1bn. RVI's performance is being undermined by the woes of Mack Trucks, its US subsidiary. The European truck industry has expanded strongly in North America in the last decade through take-overs by Mercedes-Benz (Freightliner), Volvo (White and General Motor's heavy truck operations) and Renault (Mack), but at the moment the acquisitions are yielding little but red ink.



Uphill struggle: the past two years have been hard going for the world's truck makers

RVI's immediate problems are overwhelming any medium-term benefits that may be derived from its strategic alliance with Volvo of Sweden. However, the partnership could yet have a profound impact on the world heavy truck industry by the second half of the 1990s.

Italy's Iveco, the commercial vehicles subsidiary of Fiat, also at the forefront of the restructuring wave through its take-over of the loss-making Spanish Pegaso (Enasa) truck operations, is also financially on the ropes. Its net profit slumped to only Fl 23m in 1990 from Fl 590.9m a year earlier (Iveco is registered in the Netherlands), and its sales have fallen further this year.

Mr Sten Langenius, president and chief executive officer of Volvo Truck, warned recently that the "outlook for the truck industry is very dark, if we continue in the same old tracks as in the 1980s".

The industry in North America was "totally out of balance", he claimed. "In the latest business cycle, no one in the industry has been able to make enough profits. Today, no one makes a profit. That goes for manufacturers, the components industry, most vendors and dealers."

There were still too many truck makers in combination with independent components manufacturers. Neither the integrated truck makers nor the drive-line (engines, transmissions and axles) components' makers could today "safely fund a complete product and components line within the present uncompetitive structure. Now the fight is to survive".

Each US truck maker has maintained overcapacity. Sales in North America have averaged 120,000 heavy trucks a year during the past decade, while the industry's average annual capacity was 190,000. Capacity utilisation in the North American heavy truck industry this year has been about 55 per cent, said Mr Langenius.

In the past decade European heavy truck makers have expanded their already strong grip on the industry in the western world controlling 61 per cent of the sector by 1990 compared with 51 per cent in 1980. North American ownership has contracted from 34 to 17 per cent in the same period, while Japanese ownership has grown from 15 to 22 per cent.

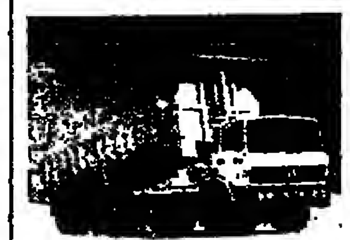
European producers now control 40 per cent of the North American heavy truck sector, but Mr Langenius claims the industry is still "very unsound", in spite of a reduction in the number of heavy truck makers from 12 to six in the past 15 years.

"The industry cannot secure funds for product development from sales in North America. Development cycles drag out. When development for environmental and safety legislation has been paid for there is simply no money left."

Product development costs at Volvo Truck, which is now linked with RVI through 45 per cent cross-shareholdings, have increased four times in the past 10 years. "In the future truck industry," said Mr Langenius, "we will see the formation of consortia and ad hoc partnerships that will fund the development of complex components as has been the case in the aerospace industry."

### IN THIS SURVEY









Editorial production: Roy Terry

## WORLD COMMERCIAL VEHICLES 2

**Kevin Done** on the UK recession

# Hopes for a modest recovery

IN THE past two years the UK new commercial vehicles market has suffered the steepest slide into recession in the post-war period. Truck sales have fallen to a level not experienced since the early 1950s.

October was the 25th month in succession that commercial vehicle sales have shown a monthly year-on-year decline. *The UK, the biggest truck market in Europe at the end of the 1980s, has fallen back to third place behind Germany and France.*

Overall, new commercial vehicle registrations, a significant barometer of economic activity, still show little sign that the recession is easing, although truck makers believe that the recession in their sector has begun to bottom out.

UK new commercial vehicle sales fell heavily in October by 27.7 per cent to 14,686 from 20,322 in October 1990, according to figures released by the Society of Motor Manufacturers and Traders.

In the first 10 months new commercial vehicle sales at 183,919 were 29.4 per cent lower than in the same period in 1990. Over the past two years new commercial vehicle sales have fallen by 43.6 per cent from 326,206 in the first 10 months of 1989.

Hitherto the truck sector has been hardest hit. In the past two years UK new truck sales (above 3.5 tonnes gross vehicle weight) have more than halved with a drop of 54.9 per cent to 27,705 in the first 10 months of 1991 from 61,391 in the corresponding period of 1989.

The rate of decline in truck sales did show signs of moderating in October, but truck makers still remain cautious about the sector's prospects to the end of the year and in the first half of 1992.

Sales of trucks (above 3.5 tonnes gross vehicle weight) fell by 4.9 per cent in October to 3,080 from 3,240 a year earlier, compared *with a fall in the first 10 months* of the year of 35.3 per cent to 27,705.

Sales of heavy trucks (above 15 tonnes gross vehicle weight) in October were 9.1 per cent lower than a year ago, compared with a fall in the first 10 months of 37.7 per cent.

According to the Iveco group, the UK truck market leader which now includes Seddon Atkinson the specialist heavy truck maker, overall truck sales (above 3.5 tonnes) are expected to total around 32,000 this year compared with 48,545 in 1990 and 69,234 in 1989. That would be the lowest level of truck sales since 1954.

The severity of the slide into recession can be judged from the fact that new truck sales in 1989 were the highest for a decade and were the second highest of the post-war period.

Iveco forecasts the beginning of a gradual recovery next year to a total truck market of 35,000-41,000, but with great uncertainty remaining about prospects in the first six months of 1992. While the rate of decline in truck sales moderated in October, demand for vans remained depressed with sales of small vans (up to 1.8 tonnes) showing a year-on-year decline of 34.3 per cent, while sales of medium vans (from 1.81 to 3.5 tonnes) declined by 35 per cent.

In the first 10 months of the year small van sales at 58,031 were 31.9 per cent lower than in the corresponding period a year ago, while medium van registrations have fallen by 27.9 per cent to 81,361.

The scale of the recession has caused widespread job losses in the industry and most truck makers in the UK have fallen heavily into loss.

ERF, the last remaining independent, publicly-quoted UK truck maker, plunged into a pre-tax loss of £4.47m in the 12 months to the end of March, from a pre-tax profit of £3.27m in 1989/90 and £7.84m in 1988/89. It entered the recession with a strong balance sheet, however, and moved quickly to cut production and to reduce its workforce in line with the collapse in demand.

DAF of the Netherlands, which merged with the Leyland truck and van operations in 1987 and which derives around a third of its turnover from the UK, has also suffered mounting losses – a net loss of Fl 179.1m ($96.8m) in the first half of 1991 and a loss of Fl 227.6m in the whole of 1990.

*In spite of the depth of the recession* the unusually high number – by comparison with the rest of western Europe – of truck assembly plant operations in the UK remains unchanged with DAF, Iveco Ford, ERF, AWD, Renault, Volvo, Seddon Atkinson (now a subsidiary of Iveco, the commercial vehicles operation of Fiat of Italy) and Foden (a subsidiary of Paccar of the US) still present. The recession has not yet claimed any victims, but export and military contracts have played an important role in supporting several of the manufacturers.

DAF has closed the gap behind Iveco in the UK truck market, and is vying for market leadership. In the first 10 months of the year it boosted its market share to 28.6 per cent from 22.7 per cent a year ago, while the Iveco group's share fell to 23.9 per cent from 25.8 per cent. The Iveco group has lost ground in particular in the heavy truck market, where its sales in the first 10 months dropped by 50.1 per cent from the corresponding period last year.

Ford has maintained its clear dominance of the small and medium van sectors. Its Escort and Fiesta small vans boosted Ford's share of the small van segment to 40 per cent in the first 10 months from 34.5 per cent a year ago, while its share of the medium van segment with the Transit van and P100 pick-up was only slightly lower at 45.5 per cent.

While sales in western Europe continue their downward spiral . . .

# Germany cushions the fall

THE European van and truck market has been in decline for two years. *The weakening of* demand, which began in the UK, Sweden and Spain, has been reinforced by the slide in sales first in France and then in Italy.

The fall in the European commercial vehicles market has been cushioned, however, by the surge in demand in Germany, fuelled by the process of reunification. This has served to mask the deep recession in some key markets, most notably in the UK, the most depressed of the big European truck markets.

According to the DRI European Trucks Forecast Report published this month, the western European light commercial vehicles market (up to six tonnes gross vehicle weight) is expected to show only a marginal decline this year to 1.45m from 1.46m after peaking in 1989 at 1.51m, a fall over the last two years of 4 per cent.

The fall in demand in the truck market (above six tonnes) has been more marked with sales expected to slip to 270,500 this year from 276,800 in 1990 and 295,800 in 1989, an 8.6 per cent decline over the last two years.

The DRI forecast suggests that the worst should be over by the end of 1991 in the van market, which is dominated by events in France, the UK, and Spain. It forecasts a marginal increase in demand for light commercial vehicles (up to six tonnes) of 1-2 per cent in 1992 to around 1.47m.

In the truck market (over six tonnes) there is still no light at the end of the tunnel, however. DRI forecasts that demand will continue to contract in 1992 and 1993 with a 7.7 per cent fall in western European new truck registrations in 1992 to 249,800 and a further fall in 1993 to 240,000.

Behind these figures lie changes in fortune in individual markets, however, most importantly the sharp fluctuations in demand in the UK and Germany. The unprecedented imbalance in demand across Europe is having a fundamental impact on the fortunes of individual truck makers. The German producers MAN and Mercedes-Benz, buoyed up by the strength of the German market, have enjoyed bulging order books, while in contrast producers most exposed to the woes of the UK market, such as DAF and ERF, have plunged into loss and have been forced to scale back production and cut their workforces.

The pendulum is expected to begin to swing back in the next two years, however. According to the DRI study, "Germany has boomed in 1991 but looks set to fall sharply in the period 1993-94, just as the recovery in some of the currently most depressed markets begins to pick up speed".

The German market has had a huge impact on overall western European demand. In 1989 it accounted for 13.5 per cent of the western European van market, but DRI forecasts that this share has jumped to 30 per cent in 1991. It estimates that demand in the unified German market in 1991 is 72.6 per cent higher than in 1989 in West Germany alone.

Reflecting the same pattern, demand for medium trucks (3.5 to 15 tonnes) in Germany has jumped by 76 per cent from 1989 to 1991 with the German share of the western European market rising to an estimated 41.7 per cent from around a quarter before the reunification surge.

In the heavy truck market (above 15 tonnes gross vehicle weight), traditionally the most volatile segment of the commercial vehicles market, growth in Germany has not been sufficient to compensate fully for the declines elsewhere in Europe. According to the DRI study German heavy truck volumes have risen from 30,500 in 1989 to 54,200 in 1991, an increase of 77.7 per cent, while heavy truck registrations elsewhere in Europe have fallen from 140,500 to 108,400, a 23 per cent decline.

Germany is a key factor in forecasts for overall western European demand. According to DRI the level of new orders for vans and trucks in Germany indicates that the peak of the surge will soon have passed. "When the German manufacturers' substantial order backlog has been worked through, the market will drop significantly, some time in the first half of 1992."

The impending deregulation of the German transport market is expected to weaken demand for medium and heavy trucks from 1992. "Demand for trucks will be depressed by the efficiency gains made in the operation of trucks but also through the uncertainty introduced into the outlook for individual truck operators, which will lead truck operators to postpone purchases."

By 1993, when these deregulation moves are expected to cause a significant retrenchment in the German heavy truck market as capacity is cut in the long-distance fleet, the weakening of the German market is expected to work against the slow recovery elsewhere. Towards the middle of the decade the picture looks brighter.

"The European heavy truck markets outside Germany are expected to be growing more strongly in 1994," says the DRI study, "and together with a bottoming out in the German market slide, this will be enough to start the recovery in Europe as a whole."

**Kevin Done**

**Western European Light Commercial Vehicles Sales Forecast – up to 6.0 tonnes (000s)**

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Western Europe total | 1,461.6 | 1,449.6 | 1,466.8 | 1,500.6 | 1,568.5 |
| Germany** | 211.3 | 345.3 | 293.0 | 273.8 | 275.3 |
| France | 394.1 | 344.1 | 364.4 | 363.5 | 383.4 |
| UK | 225.4 | 161.3 | 175.7 | 201.4 | 222.8 |
| Italy | 162.6 | 152.7 | 155.1 | 160.5 | 170.5 |
| Spain | 191.1 | 179.5 | 201.0 | 208.0 | 210.6 |

**Western European Trucks - above 6 tonnes Sales forecast (000s)***

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Western Europe total | 276.8 | 270.5 | 249.8 | 240.0 | 252.5 |
| Germany** | 68.3 | 95.1 | 67.7 | 48.6 | 52.3 |
| France | 48.5 | 40.8 | 43.6 | 45.2 | 47.3 |
| UK | 46.2 | 30.3 | 33.6 | 38.6 | 43.5 |
| Italy | 32.2 | 26.5 | 26.2 | 26.7 | 29.3 |
| Spain | 24.9 | 21.2 | 22.9 | 23.3 | 23.8 |

*1990 actual, 1991/94 forecast. Forecast for 15 markets.
**From 1991 Germany total includes East German states.
Source: DRI European Trucks Forecast Report

**John Griffiths** investigates the European market for vans

# Ford and VW look set to step up the battle

THE western European market for purpose-built panel vans, mainly those with gross vehicle weights between two and 3.5 tonnes, is poised to become the battleground for an increased struggle between Ford and Volkswagen.

The US multinational and Germany's largest vehicle maker have disputed the region's market leadership over many years, with Ford's ubiquitous Transit model acquiring a growing dominance since the late 1980s as Volkswagen's Transporter range has aged.

By late last year, however, Volkswagen's all-new Type 4 Transporter range was rolling off VW's lines at Hanover. As a consequence, and helped by the booming German commercial vehicle market, VW's panel van output rose by 6.3 per cent last year to 113,500 while Ford's Transit output – reflecting market declines in most other European countries – sank by 12.3 per cent to 153,200.

VW's hope is that the T4 will sharply narrow the gap with Ford – and in the first six months of this year those hopes were being realised. Output jumped to 73,800 for the six-month period, just 5,000 units behind Ford.

Last month, however, Ford raised the stakes yet again with the launch of the latest version of the Transit.

Unlike the last Transit revision in 1986, the new Transit is claimed by Ford to be much more than a facelift. It might not look much different from its predecessor but there are 3,000 engineering changes, claims Ford, including the first-ever use on a commercial vehicle of "drive-by-wire" accelerator operations and four-channel anti-skid braking (the latter, however, being optional).

The accelerator has no mechanical linkage with the 2.5-litre direct injection turbodiesel engine, which also marks the first use of electronic engine management in a medium commercial vehicle.

The management and drive-by-wire systems were developed jointly with Lucas Commercial Diesel Systems, part of the UK components and aerospace group. The two systems are claimed to make more efficient use of fuel, give the driver more precise control and can even compensate for wrong engine timing or other wrong settings introduced during routine servicing.

The Transit, first launched 26 years ago, was the first model to be produced internationally by Ford. It is built mainly at Southampton in the UK and Genk in Belgium, with a smaller Portuguese assembly operation, near Lisbon. Total production now exceeds 2.5m units. Ford has spent £250m on the latest version, including manufacturing investment at Southampton and Genk.

It expects to sell just under 160,000 this year, still short of the three plants' combined capacity of 180,000 units a year.

Three different badges – *Fiat Ducato, Peugeot J5* and Citroen C25 – obscure the fact, however, that the European *medium van market* is essentially a three-horse race. All three are produced under a joint venture between Fiat and Peugeot at Sevel, and with first-half output of 77,090 units is only fractionally behind Ford.

German sales have reached new heights

# A dream come true

IF THERE is a truck maker's dream, then it has certainly come true for Germany's manufacturers this year. Spurred on by the economic impact of re-unification, sales of commercial vehicles in the enlarged German market have reached new heights.

Unity, according to the German motor industry association (VDA), has benefited the truck manufacturers even more than the car makers. Since there is practically no part of the east German economy which does not need a drastic overhaul, trucks have become one of the most sought after industrial goods. Last year, new truck registrations in west Germany advanced by 17.5 per cent to 203,000 units, with heavy trucks and trailer-carrying vehicles performing especially well. In the first half of this year, the rise was 23 per cent. Most of this reflects post-unification business, even if much of the actual ordering has come from west German companies building up activities in the new eastern states.

In the case of the car sector, the leap in domestic demand reflected the sudden ability of east Germans to buy proper western cars. Mostly, they bought second-hand models, but this made the used car market so buoyant and the prices so attractive that many west Germans decided to trade in old models for new ones.

The link between the collapse of the communist regime and the introduction of the free market economy is almost as direct in the case of trucks, though at one remove from the consumer. The new purchasing power generated by the introduction of the D-Mark prompted retail chains, mail order houses, and a variety of shops and stores to start up in east Germany. Since the requirement was mainly for western consumer goods, whether domestic or imported, transport needs rose sharply.

Another flourishing source of demand is the building industry. Activity has been high in west Germany, but the construction needs of the east are enormous. Putting right years of infrastructural and environmental neglect will cost billions of D-Marks, take many years, and involve the movement of vast amounts of materials. For the truck makers, it is a bonanza.

Just how high the rewards can be is shown by the latest figures from MAN Nutfahrzeuge, the commercial vehicles subsidiary of the MAN industrial group. Its order inflow shot ahead by 53 per cent in its financial year to June 30, 1991, to DM9bn. Some of this reflected the first-time inclusion of the Steyr truck company of Austria. Excluding this, however, the order rise was still 41 per cent. In the German market, MAN's new truck orders rose by nearly 70 per cent.

This came as the rest of western Europe was experiencing a downturn, with some markets – such as the UK, Sweden, France, and Italy – suffering worse than others. In 1990, west German commercial vehicle exports dropped by 4.5 per cent to 168,000 units. Halfway through this year, they were down by 12 per cent. The VDA expects exports to continue weak for a time as a result of higher operating costs for truck users, weaker industrial investment, and the fact that many vehicles on the roads are fairly new after the previous wave of ordering.

In spite of the big order books resulting from unity, MAN is not investing in east Germany. Like many companies in the west, it prefers to serve the new market from its existing plants, squeezing out extra profits by using capacity to the limit. Daimler-Benz, however, has committed itself to some big spending in east Germany. Mercedes-Benz, its vehicle subsidiary, is embarking on a DM1bn project to build a new truck plant in Brandenburg near Berlin.

Like the car manufacturers, Volkswagen and Opel, Mercedes has begun its east German involvement modestly through local assembly of trucks. At the Ludwigsfelde site, where construction should start in mid-1992, Mercedes plans to produce 40,000 trucks a year. Completion is due in 1994, with up to 4,000 people expected to be employed. As with the VW and Opel ventures, the new jobs will be far fewer than in the old IFA state vehicle group, which had low productivity, an overblown complement of staff, and an incredibly high degree of vertical integration.

Mercedes' new east German venture will be much leaner, but the jobs will be securer. Also, more jobs will be created as supply companies spring up, including some which have been reborn from IFA. Initially, Mercedes had intended to work with IFA – this was before unification – deciding later that it would stick to its own products. As well as light trucks, it has also started assembling its larger transporter vehicles in Ludwigsfelde. This year's total Mercedes truck output in east Germany will be around 8,000 units, rising to 25,000 in 1993.

Mercedes expects its worldwide truck output to rise by 14 per cent in 1991 to some 295,000 units. Of this, Germany will account for 186,000 (a rise of 10 per cent) and foreign plants for nearly 110,000, a rise of 20 per cent. Although the west European market (apart from Germany) is depressed, the company has seen its sales improve considerably in South America, notably in Mexico. Mercedes is the world's largest producer of trucks above six tonnes and expects its market share in western Europe to rise from 27 per cent to 30 per cent in this category.

In spite of the sales impetus provided by unity, Iveco Magirus, the German operation of Iveco, the truck subsidiary of Italy's Fiat, has found the going hard. Since the German plant makes heavy trucks for the export market, production was hit by poor demand in Europe, with a 12 per cent fall to 7,700 units in the first half of this year. But sales of Iveco trucks in Germany, mostly lighter trucks from Italy, were 62 per cent higher at 10,200 units. Iveco's mixed experience is a reminder that Germany remains highly dependent on world markets, however strong the one-off influence of unity may be.

**Andrew Fisher**

Profile: DAF

# Hit hard by fall in demand

AMONG the leading European truck makers DAF of the Netherlands has been hardest hit by the sharp fall in demand in key markets.

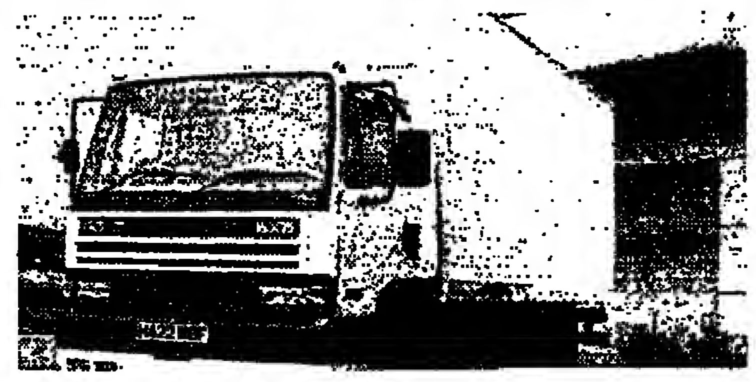
The company, in which British Aerospace holds a 16 per cent stake, has had to pay dearly for its exposure to the UK commercial vehicle market, which in the past two years has suffered its steepest fall into recession in the post-war period. The UK accounted for 31.3 per cent of DAF group turnover in 1990.

The company plunged into a net loss of Fl 179.1m ($96.8m) in the first six months of the year from a loss of Fl 32.1m in the corresponding period a year ago and has been forced to raise new capital to bolster its deteriorating finances.

Its fortunes have changed with alarming speed reflecting the volatility of the European truck market. It fell into deficit last year with a total net loss of Fl 237.6m, including restructuring costs of Fl 78m, and failed to pay a dividend, after achieving a record net profit of Fl 172m a year earlier.

In the first half of this year DAF had a negative cashflow of Fl 103m compared with a positive cashflow of Fl 42m in the same period a year earlier and group capital and reserves dropped to only 23.7 per cent of total assets at the end of June from 27.5 per cent at the end of 1990 and 34 per cent at the end of 1989. Reflecting its higher indebtedness, interest charges in the first six months this year jumped to Fl 68.8m from Fl 32.5m a year ago.

To strengthen its balance sheet it has been forced to



Leyland DAF's new 45 Series Roadrunner

raise new equity with a Fl 250m issue of convertible preference shares last month

The company has forecast that its financial performance in the second half of the year would be better than in the first, and that it would reach a break-even position during the final quarter provided there was no further deterioration in the European truck market.

It has warned, however, that an improvement in its results also depended on the pace of a possible recovery in demand in particular in the British truck market, where there are still few signs of sales improving.

It has been forced to take tough actions to staunch the flow of red ink, and the company still faces difficult investment decisions, not least in relation to the manufacturing location for its new generation of vans, that are being developed in a joint venture with Renault of France.

DAF has planned hitherto to locate its share of the production at its Birmingham van plant, but the decision to approve the investment will be a big test of DAF's nerve ahead of any firm sign of a recovery in its principal UK market.

In response to the recession the DAF workforce was cut by a further 601 jobs in the first half of the year to 14,789 at the end of June. It has been reduced by nearly 12 per cent or 2,000 jobs in the 18 months from 16,782 in 1989, but the company has warned that there would be a "further reduction and streamlining of the organisation".

The DAF truck range in continental Europe and in the UK is being further integrated in the next two years, chiefly through the launch of a new range of medium-weight trucks. The company hopes this move will enable "the complexity of the entire organisation to be reduced and efficiency considerably improved". The launch of the new range will mark the final phase of the integration of the DAF and Leyland product lines following the merger of the two operations in 1987.

DAF truck production was cut sharply by 25.5 per cent to 11,305 in the first six months of the year from 15,183 in the same period a year earlier, while van output dropped by 16.3 per cent to 10,079 from 12,047 to reduce drastically bloated stock levels. DAF truck sales fell less sharply to 12,870 from 13,470, while van sales fell to 9,776 from 10,376. In 1990 DAF truck production fell by 13.7 per cent to 29,993.

As part of the drive to reduce costs, DAF is restructuring its UK sales and marketing operations.

In 1990, DAF held 8.5 per cent of the western European truck market – although this slipped to 7.8 per cent in the first half of 1991 – and 2.8 per cent of the van market.

The recession in the UK and elsewhere has left DAF looking vulnerable with further restructuring forecast for the western European industry.

**Kevin Done**

Profile: MERCEDES-BENZ

# Expansion to the east

MERCEDES-BENZ'S most recently acquired truck factory at Ludwigsfelde in eastern Germany, is on target to produce 7,000 medium-weight trucks this year, after starting assembly in mid-February.

The venture, an early result of German unification, is the most costly of three long-term projects started over the past 12 months which are aimed at developing Mercedes-Benz's involvement in worldwide manufacturing of commercial vehicles. The other are two are in Korea and Russia.

The Ludwigsfelde factory was part of IFA, an East German truck builder which also exported to eastern Europe. After unification, IFA disintegrated. The East Germans wanted western products and the eastern Europeans, after currency union, could not pay for trucks of any kind. Around 7,000 IFAs proved unsaleable and were donated to the Soviet Union to help transport food.

IFA's old works was taken over by the Truehandanstalt, the body set up to attract investment to eastern Germany, and Mercedes-Benz has been leasing the site, and workforce.

The stop-gap arrangement will maintain employment until Mercedes-Benz opens an all-new assembly plant nearby, costing DM1bn ($600m) and with a capacity of 40,000 LN2s middle-weights by 1994. Groundwork on the new factory should start next summer, fulfilling Mercedes-Benz's "political and social responsibility" to invest in manufacturing in eastern Germany.

In addition to the LN2s, T2 heavy van production started to be switched to Ludwigsfelde from the highly automated van plant at Dusseldorf in September. Eventually, all T2s will be built at Ludwigsfelde, allowing Dusseldorf to expand mass production of the more mainstream van, T1.

Mercedes-Benz quickly dropped any idea of upgrading the existing factory. It was dark, unhealthy and an environmental disaster. There had been little waste management – for example, surplus oil had been poured into the ground for the past 25 years.

On the face of it, Ludwigsfelde has been a welcome addition to capacity, producing extra vehicles without the need for capital investment in a year when Mercedes-Benz's main truck plant, at Wurth, has been unable to keep up with demand in Germany in spite of building more than 80,000 units.

However, the new factory has brought its problems. Mercedes-Benz originally planned to transport sub-assemblies by rail from Worth, but services have proved hopelessly inadequate and the parts now move only by road.

Training the Ludwigsfelde workforce has been a huge undertaking. The majority of the 2,200 workers (including 400 apprentices) have spent a month or more being trained on the shop floor at Mercedes-Benz plants in the west, even though those production lines were working flat out and scarcely had much spare time.

Mercedes-Benz has found the Ludwigsfelde workers technically able and "relatively fast to accept the discipline of a western-style efficiency economy". However, wage rates in the east are already little different for leading employers from western Germany.

Ironically, the plan for Ludwigsfelde increases Mercedes-Benz's commitment to Germany, a high wage cost area, at a time when its stated aim is to reduce costs by buying more components and materials for European production from countries outside the Federal Republic. German suppliers have, however, been squeezed on prices.

Mercedes-Benz sources say the company is under pressure from the government to buy a truck company in eastern Europe, possibly in Czechoslovakia, to assist the economy there. Mercedes-Benz is spending DM200m on a distribution and service network in eastern Europe, but sees the market there as a long slog.

The company's second big expansion is a licensing deal with Avtrokon, a bus manufacturer near Moscow, which employs 80,000 people and builds 30,000 big buses a year. Avtrokon is buying plant, training and technology to build Mercedes-Benz 0303 coaches, in a DM150m deal financed by German banks.

It gives Mercedes-Benz a long-term foothold in the huge Russian bus market for little capital cost. Mercedes-Benz has built 35,000 0303s, but the equipment is no longer needed in the west because the model is being superseded by the all-new 0404 coach. By 1994 Avtrokon will be building 2,500 0303s for sale in local markets, but all carrying the Mercedes-Benz three-pointed star. Production so far comprises only "pilot assembly of limited numbers", with body, components and interior fittings all supplied by Mercedes-Benz, but the project is progressing on target, Mercedes-Benz says, in spite of the political upheavals in Russia.

A more expensive and more significant venture is the licensing deal with SsangYong Motor Company of Korea. SsangYong, already an importer of Mercedes-Benz heavy trucks, plans new factories to build 60,000 Mercedes-Benz 100 vans annually, plus a further 40,000 Mercedes-Benz-designed engines for its own, off-road vehicles.

Production is due to start in 1994. The vans will be badged Mercedes-Benz and sold by the German company's network in South-East Asia except for Korea itself, where it will be badged and sold as SsangYong.

**Jack Semple**

## WORLD COMMERCIAL VEHICLES 4

**Alan Millar** on EC regulations

# Easing traffic at frontiers

A SIMPLE example says it all. Antwerp and Rome and Chicago and Tucson are both 2,000km apart and are linked regularly by inter-state trucks. But while the American truck completes the journey in 33 hours – an average speed of 60km/h including stops – border delays and complex procedures extend the European journey to 100 hours, an average speed of only 20km/h.

Not only that, but the rules and tax regimes governing road transport in the 12 European Community states differ immensely and protectionism has been rife. It is hardly surprising, therefore, that the European Commission sees road transport as critical to the successful creation of a single market in which goods will flow freely across frontiers. Aided by qualified majority voting by member states' ministers, it is pushing through a wide range of reforms to harmonise and deregulate the industry.

Central to these are the abolition of the volume controls on international road haulage. Permits, limiting the number of journeys any operator can make, will be abolished in 1993 along with controls on cabotage, the system by which a road haulier in one state may collect and deliver loads in another. And individual states will no longer be able to limit the size of their road haulage industries by restricting access to the profession.

In the United Kingdom, quantity licensing of road haulage was abolished in the late 1960s when the emphasis was changed to safety-related quality controls, but the German, Italian and Spanish industries are still heavily regulated and are dominated by small businesses. Italy is seeking EC approval for state-funded compensation to encourage haulage businesses to close as stronger businesses grow.

From January 1993, six-year Community Haulage Authorisations will be issued to all operators who meet the EC and national conditions of admission to the transport business. Holders will be entitled to undertake unlimited haulage within the EC and to and from non-EC states. Offences committed in any EC state, such as overloading a truck or exceeding drivers' hours limits, could lead to the operator losing its authorisation.

VAT rules are being standardised to promote fairer competition for cabotage traffic. This will eliminate such anomalies as the arrangement by which international traffic from the UK is zero rated, but is charged at the local rate in other EC states. Until 1996, when the Commission hopes all states' VAT levels will be harmonised, VAT will be charged when the haulier and its customer are VAT registered in the same state.

At the same time, fuel charges across Europe will be brought closer in line. Finance ministers have agreed that each state should levy a minimum of 245 Ecu per 1,000 litres of diesel fuel (approx 78p per gallon). This compares with a community average of 350 Ecu levied now and a UK rate of 313 Ecu. The highest rate in the EC is 408 Ecu in Italy, the lowest Luxembourg's 102 Ecu.

Countries will be permitted to levy more than the minimum, in the short term at least, and Luxembourg and Greece have been permitted to charge an interim level of 195 Ecu for the first two years.

There has been less progress in the far more difficult area of harmonising vehicle excise duty (road tax) on trucks. The Commission wants to ensure that duty rates do not favour one country's operators more than others, while at the same time it wants duty rates to be related as closely as possible to the actual use being made of the road networks.

The issue is complicated by several factors. Some states are unaware of the real costs involved. Some levy tolls on traffic using trunk roads. And costs vary according to the types of vehicles involved. The likely outcome will be the phased introduction of minimum tax rates based on costs notified by member states, but with allowances made for tolls paid by operators.

Such a complex reform is unlikely to be completed before 2000. By then, the UK and Ireland will also have come into line with an EC directive which permits the operation of 40-tonne trucks throughout the Community. In spite of vociferous industry arguments that heavier lorries improve the environment by doing the work of a greater number of lighter ones, successive UK transport ministers have assuaged environmental objectors by arguing that it will take until 1999 for bridges to be strengthened to take the heavier loads. However, the issue is unlikely to be resolved if, as expected, the EC and EFTA merge fully.

Sweden permits 56-tonne trucks and is planning an increase to 60 tonnes in 1995 as an environmental measure. It is unlikely to want to sacrifice the benefits it expects to gain, yet Switzerland is no more likely to favour an increase over its 28-tonne limit.

The object of this enforced change is to increase the efficiency and lower the cost of transport throughout the EC by eliminating artificial restrictions. Speaking at a German seminar recently, Tomislav Maksimovic, marketing manager with Iveco, Fiat's commercial vehicle division, forecast a effect similar to that in the US in the 1980s when road haulage deregulation led to freer cross-border movements and lower wage rates for drivers.

In addition to that, Mr Maksimovic predicted that industry would take advantage of cheaper transport to concentrate manufacturing in larger units and supply components on a Just-in-Time basis. Demand for transport would grow and the transport industry would change, with a polarisation between large "mega carriers" capable of meeting the pan-European needs of the largest industries and small companies thriving in niche markets.

Medium-sized companies may be absorbed or squeezed out of the market. Mr Maksimovic believes that the sheer pace of change, and transport companies' need to adapt to it, rules out any significant increase in demand for new trucks until 1995.



**William Dawkins** examines the market in France

# Fruitful Swedish alliance

RENAULT, the French automotive group, and Volvo, its new Swedish partner, are beginning to produce the first practical results from the far-reaching alliance they sealed early last year.

Together, Renault Véhicules Industriels (RVI) and Volvo Truck form the world's largest heavy truck maker, with world output of 127,000 trucks and buses last year and a combined 1990 turnover of FFr54.8bn ($9.83bn) of which FFr29bn *comes from RVI and FFr25.8bn* from Volvo Truck. They had a combined 23 per cent of the European market for trucks of more than five tonnes on last year's figures, and 24.5 per cent of North American market for vehicles of 15 tonnes plus.

It was the need to gain this critical weight in the world truck industry that originally brought the two automotive groups together. They agreed to exchange 45 per cent stakes in each others' truck and bus operations, implying a deeper relationship than between the car operations, where smaller percentage stakes are being exchanged.

Yet in practice, RVI officials admit that the alliance has made slower progress in trucks than in cars. This is perhaps a symptom of the fact that Renault and Volvo are closer competitors in trucks than in cars, where their product ranges are broadly complementary in type and geographical market. It could also reflect the fact that the economic downturn has bitten harder in commercial vehicles than in the car industry.

That said, both companies say they are content with the way the alliance has progressed. The broad aim of the deal has always been to keep the two marques separate, in different showrooms under their own badges, so that they avoid taking market share from each other.

**The broad aim of the deal has always been to keep the two *marques separate, in* different showrooms**

Given the sheer size of their share of a market still in decline, this is clearly crucial. Last year, RVI and Volvo Truck together sold 62,100 trucks of five tonnes plus in Europe, taking second place behind Daimler Benz with 78,800 vehicles and well ahead of Iveco Ford, with 55,300 trucks.

Their US operations, Volvo-GM and RVI's troubled Mack Trucks subsidiary, recorded combined North American sales of 32,852 trucks of more than 15 tonnes, last year, making them market leader ahead of Navistar, which sold 30,948 trucks there last year, and Freightliner, the US subsidiary of Daimler-Benz, which sold 24,574 trucks in North America over the same period.

Accordingly, co-operation is sought in areas invisible to the customer, such as technical development, research, component purchasing, and investment. As Mr Pehr Gyllenhammar, *Volvo's chairman,* explained when the deal was signed, the aim is to build a new sort *of relationship that* avoids the old syndrome of "eat or be eaten". Both will "keep their integrity, will keep both HQs, but gain considerable synergies and increased efficiency", he said.

The first step was the establishment of a 10-man group policy committee headed in turns by Mr Gyllenhammar, and Mr Raymond Lévy, Renault's chairman, backed up by two operating committees for car and trucks. The truck committee has two members, Mr Jean-Pierre Capron, chairman of RVI, and his counterpart at Volvo Truck, Mr Sten Langenius.

Their first practical co-operation was the creation early last year of a single purchasing policy for any common components used by both groups – *both in cars and trucks.* In practice, this means agreeing on a single purchasing *representatives for the components* involved.

Volvo calculates that the *alliance will allow its truck* and bus operations to trim 6 per cent to 8 per cent from *their development, production* and procurement costs in five to 10 years. That means an *annual earnings improvement* of just over SKr1bn ($180m), in present conditions. RVI is not publishing its estimated savings, but its parent reckons they will already start to be *evident in this year's accounts.*

The next step, in April last year, was the foundation in France of an equally owned joint research centre, Advanced Research partners. This serves both the truck and car businesses, and has already started work on a joint RVI and Volvo Truck power train – engine, gearbox and axle – to come *on to the market* in five years.

But perhaps the deepest area of co-operation is in buses, where the pair are working together on a joint vehicle, a commuter bus with a low floor for easy access, due to come out in 1993 or 1994, say RVI officials. This is the only joint vehicle envisaged in the accord, though it will still be sold in different versions under *the partners' separate badges.*

**The deepest area of co-operation is in buses, where the pair are working together on a joint vehicle**

The project also involves Heuliez, the French bus maker and a longstanding RVI technical partner. RVI and Volvo Bus each took a 37.5 per cent stake in Heuliez *last June*, giving them joint 75 per cent control. Heuliez is likely to provide the bodywork, while RVI and Volvo would provide a joint chassis, say RVI officials.

*Like their competitors, both* companies are still seeing their profits squeezed by the *economic* downturn, in which RVI expects the European market to decline by 12 per cent this year and *US demand to fall* by 30 per cent. Last year, RVI swung into a FFr102m net loss from a FFr930m profit in the previous year, hit by larger than expected losses at Mack Trucks. Over the same period, Volvo Truck saw its operating profits dwindle from SKr2.28bn in 1989 to SKr1.4bn.

Since taking full ownership of the *formerly 45 per cent* owned Mack Trucks subsidiary in autumn last year, RVI has made sweeping management changes, including sending in its own chairman Mr Elios Pascual. RVI was holding market share in the US and Europe in the first six months of this year, in spite of its 14 per cent decline in turnover as against the same period in 1990. Volvo Truck's sales were surprisingly resilient in the first six months, registering a mere 4 per cent decline, helped by buoyant deliveries to Germany and the Middle East.

RVI, meanwhile, expects to be breaking even as a group by the end of this year, thanks to a good commercial reception for its latest AE range of *trucks*. But officials do not see any underlying recovery in any of RVI's main markets, except for Germany, where truck sales have continued to climb, irrespective of the down*turn elsewhere in Europe.*

**Haig Simonian** looks at signs of recession in the Italian market

# Foreign competition grows

THE Italian commercial vehicles market, dominated by Fiat's Iveco subsidiary, has been giving "loud and clear" signals of recession this year, says Mr Tomislav Maksimovic, Iveco's marketing director.

"Unfortunately, commercial vehicles are the leading indicator for the start of recession and the final one for the end of it," he says.

With most other European markets also suffering this year, apart from Germany, group sales look set to remain static at the 1990 level of 125,000 units, in spite of the addition of 3,000-4,000 units from Enasa, the Spanish producer in which Iveco bought a controlling 60 per cent stake in September 1990. Iveco's response has been a large restructuring plan, involving around 3,000 job losses, linked with a L4,000bn ($3.3bn) three-year investment plan to improve its productivity and its product range.

In Italy, where Iveco has a 56 per cent market share, preliminary figures for the first seven months of 1991 revealed a 16 per cent fall in the market for vehicles over 3.5 tonnes against the same period in 1990. In 1990 as a whole, the market slipped by only 2.3 per cent, with the fall concentrated in the last quarter.

As elsewhere in Europe, trucks over 16 tonnes have borne the brunt of the damage. Sales of heavy trucks crashed by 23 per cent in the year to July, against a 2.3 per cent fall for all of 1990. The decline in the market has been coupled with some shuffling of market share among the leading manufacturers. Over the past two years, Iveco's share of the domestic market has slipped by four percentage points from 60 per cent.

This year has seen "relative stability" in its share of sales of light-to-medium weight vehicles, in spite of the inroads made by Ford's Transit range, which has been very successful in Italy.

The erosion of its share has been more striking for heavy trucks, where, like other manufacturers which traditionally dominated their domestic markets, Iveco has suffered from increased foreign competition.

In Italy, the main beneficiary has been Mercedes for heavy off-road quarry and site vehicles, while Volvo has made some progress for road vehicles and Scania has maintained its good position.

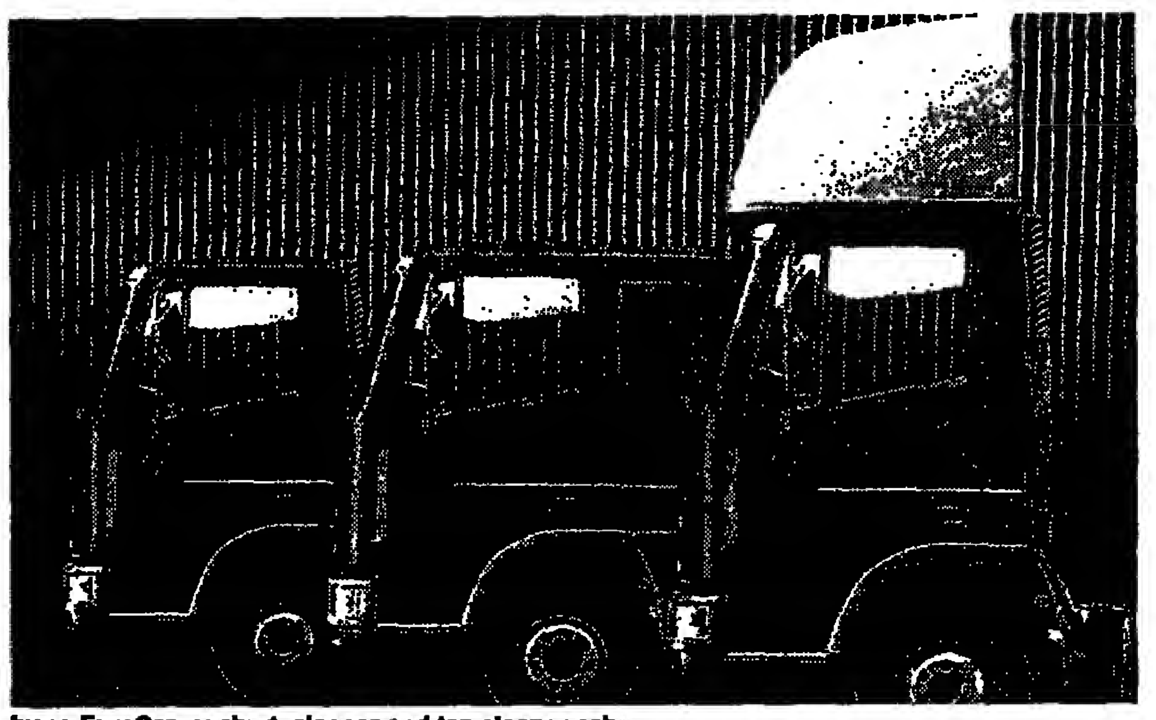
Iveco is well aware of the dangers that can arise during the period between the departure of an old model and introduction of its replacement. Sales slipped prior to the arrival of the Daily, its light-medium weight range.

Now fully established, Iveco's share of the 3.5-4.99 tonne range in western Europe reached 24.9 per cent in the first five months of this year, compared to 17.1 per cent for Mercedes and 15 per cent for Ford, says Mr Maksimovic. "The Daily is our prima donna," he says.

The figures, which admittedly also include sales for Fiat's own Ducato van, which overlaps with the Daily at the lighter end of range, is up from 24 per cent last year.

Iveco is now concentrating on the introduction of its new 6-10 tonne trucks, to be called Eurocargo in continental Europe, while retaining the established Cargo name in the UK. Although the full range is not yet available, the new lorries have already gone some way to restoring Iveco's domestic market share in this segment, he says.

Further ahead are new medium-heavy trucks, which should come on stream early next year, and the new heavy



Iveco EuroCargo: short, sleeper and top sleeper cabs

vehicles, for which customers will have to wait until the end of 1992 or early 1993.

The group could have a marketing problem when the new heavy trucks are introduced, as they will be sold, alongside the existing Turbostar range, introduced in 1984, for an initial period at least.

The decision not to drop the current models completely is to help smooth over the introduction of the new models, and partly reflects the boost given to the Turbostar following the recent adoption of an updated drive line. But when they do come, Iveco's new heavies will offer a much wider range than their predecessors thanks to more flexible manufacturing techniques, says Mr Maksimovic.

Outside Italy, Germany has been the best performer for Iveco this year, and the UK by far the worst. The severity of the UK recession has led to a continuing postponement of forecasts for an upturn in truck sales. And, as the main UK producer as a result of its joint venture with Ford, Iveco has been particularly exposed to the decline.

Sales of commercial vehicles of over 3.5 tonnes in the first seven months of this year plunged by 33 per cent compared to the same period last year, while sales of lorries over 16 tonnes dropped by 41.5 per cent.

This year's *reductions* follow declines which were almost equally as steep in 1990, when *overall sales fell* by 25 per cent and by 36.5 per cent for heavy trucks.

By contrast, Magirus Iveco, the group's Ulm-based German subsidiary, has enjoyed a boom year thanks to higher domestic demand and an upsurge in eastern European orders.

Growth has been strongest in the light-medium and medium segments, while the increase has been more in line with the overall market for heavy lorries. As a *result*, Iveco's market share in western Germany has climbed to *13.6 per cent this year from* 12.6 per cent in 1990. Figures from the eastern part of the *country are still sketchy*, says Mr Maksimovic. However, Iveco appears to have been *ahead of the market's growth in heavy trucks*, but behind in medium and especially light vehicles.

*Meanwhile, in Spain*, where Iveco is now the leading producer, with a 24 per cent share *following the Enasa takeover*, restructuring remains the watchword.

*Like Italy*, the *Spanish* market showed the first signs of recession in the closing *months of last year. But* the fall has been much stronger since. In the first seven months of this year, sales for all vehicles over 3.5 tonnes were 16 per cent down on the same period last year, while heavy vehicles fell by an appreciably greater 25 per cent.

That has complicated Iveco's task of returning Pegaso to profitability. The company, which suffers from a legacy of overmanning and underinvestment, is still losing money, and the forecast now for a return to the black by 1993.

Looking ahead, Iveco hopes that next year will finally bring the long awaited upturn in the UK, and possibly some recovery in France too. By contrast, it expects growth to slow in Germany, with a further softening in Spain and Italy. Overall, western European sales are expected to be stable at best and about 6 per cent lower at worst.

It is not a particularly pleasing prospect. But in spite of the problems *in Italy, Spain* and especially the UK, Iveco's management regards the like*lihood of group sales remain*ing roughly static this year, even given the first-time inclu*sion of Enasa*, as something of an achievement.

For that they thank Iveco's *position* in Germany, and the strength of its sales outside the EC. With production having begun in August of the first of a planned 60,000 Dailies from a new plant in Nanking in China, they may be hoping to draw further comfort from non-EC sales in future too.

Component makers are going global, but **John Griffiths** detects a . . .

# Culture shock in Europe

THE large, independent manufacturers of large truck components such as engines, gearboxes and axles – the majority US-owned – are following truck makers themselves down the road to globalisation.

But, in attempting to serve simultaneously the needs of the North American and European industries – let alone seek to establish bridgeheads with Japanese truck makers – they face a stiff challenge because of the two industries' different cultures and history.

Even the fact that the biggest of the truck component independents – companies such as Cummins Engine, Dana Corporation, Rockwell International and Eaton Corporation – are American, is largely a function of the differing manner in which those cultures developed.

Decades ago, operators of the big, sometimes 500-plus truck fleets which carry most US goods over vast distances, became increasingly disillusioned with the quality and reliability of drivetrain components offered as standard by truck makers; sufficiently so to seek independent suppliers of important components themselves, and to specify more precisely what they wanted.

Truck manufacturers had little option but to fit them, because of the purchasing and *financial muscle* exerted by the US trucking operators. Over the years, the practice of using independents' components for the complete drivetrain (engine/gearbox/axle) has become the convention, such that the same engine, gearbox or axle – sometimes all three – can be found in, say, a Kenworth, Volvo White, *Navistar* or Ford.

The homogeneity of the North American truck market provided the Eatons and Rockwells with the economies of scale to make ever larger investments in their own research and developmentresources. US truck makers, presented with ever higher quality and sophisticated components, were satisfied to become primarily assemblers – not least because it left the independents carrying the R & D cost burdens.

However, the hopes of Rockwell and others as they started a transatlantic expansion back in the 1970s, that they would be able to repeat the process in Europe, have become considerably muted.

They have found a European truck industry with big players heavily vertically-integrated and seemingly content to stay that way.

*Daimler-Benz, Scania, Iveco,* Volvo all retain most of the manufacture of the key drive-train components in-house.

Mr Harold Krivan, Rockwell International's vice-president, drive train systems in Europe, admits to being puzzled at first why European truck makers have been reluctant to travel the North American route. It *seems fairly self-evident* that no single truck maker, with a whole vehicle to design and produce, is also going to be able to design and make at any one time the best engine, gearbox *and* axle as well.

The logic for them to use components developed by independents, whose entire resources are focused on these narrow areas, seemed compelling – at least to the independents; even more so given that the truck makers would no longer be carrying the R & D costs for such complex components.

Supporting their belief was that even the world car industry, with its *much* greater intrinsic economies of scale, has been travelling the same *route of ever increasing out*sourcing.

Yet, in spite of the fact that the independents now do make considerable sales in Europe, equally "we've come to understand that not everyone wants to de-integrate fully", says Mr Krivan. "We understand today much better than 10 years ago our customers' interest in designing and making their own trucks".

The historically more frag*mented markets* in which the manufacturers grew up, as well as the strong design and engineering traditions of European vehicle makers, have created companies with the ongoing ability to develop a broad spread of their own key components. And Mr Krivan and Eaton Corporation's Mr Alan Best, recently-appointed *vice-president of European* truck component operations, accept that such manufacturers can argue with conviction that vehicles designed and engineered as a whole can be better than less dedicated counterparts.

There is, however, another important reason for their reluctance hitherto to buy in on a significant scale.

An integrated truck, with *in-house engine, gearbox and* axle, necessarily means a dedicated aftermarket. Truck operators, even if they *maintain* their own trucks, thus rely heavily on the truck's franchised dealer *outlets for ser*vice and replacement parts. Many dealers are also owned by the *manufacturers.*

Since a large proportion of such manufacturers' and dealers profits derives from after-sales and service, relatively restricted competition in its supply is likely to be good for manufacturer and dealer profitability – if not necessarily for truck operators.

This contrasts with North America, where the commonality of key components is such that virtually any dealer can *repair or supply components* for virtually any make of truck, greatly intensifying competition – and depressing margins.

In the longer term, the independents remain hopeful that fast rising development costs will encourage European truck makers to out-source increasingly. "We do seem to be in a period where they are thinking whether they should make more use of outside resources," observes *Rockwell's Harold* Krivan.

He accepts, however, that this is most likely to happen only as new models are planned and where substantial new investment would otherwise be required in new generations of drivetrain components.

# Heart transplants

THE DAY European truck makers start giving up produc*tion of their own engines*, in favour of units developed by specialist engine manufactur*ers with global* economies of scale, may be closer than generally thought, says Mr Henry *(Hank)* Schacht, chairman and chief executive of Cummins Engine.

Mr Schacht, who returned to the US earlier this month after signing Cummins's first large-*scale supply* contract with Kamaz, the world's largest truck maker 700 miles east of Moscow, says he believes that even western Europe's best-known truck makers have entered a crucial period of decision-making about whether to start engine "out-sourcing".

He insists that a number of factors are combining to create a unique situation *for* the European truck industry, which may at last weaken its deep attachment to "in-house" production of engines – long regarded as the "heart" of all trucks.

With the EC single market post-1992 and deregulation and other changes affecting its haulage industry, he expects a shake-out of less efficient operators and haulage rates to fall sharply. The effect of deregulation in the US, he says, was a drop of 25-30 per cent in haulage rates and fewer, larger and more efficient hauliers.

The drop in rates and truck demand associated with such change is almost certain to be replicated in Europe, Cummins believes. As a result, the increase in bargaining power of a haulage industry whose own rates will be under severe pressure will lead to a further squeeze on profit margins for the truck makers themselves.

Worse, from the truck indus-

Continued on next page

**Anthony Robinson** looks at eastern Europe

# Monopolies doomed

THIS is not a good time to be a truck maker in eastern Europe. Re-unification of Germany and import liberalisation throughout the former communist states has left the national truck industries exposed to foreign competition in a way that was simply unimaginable when they were set up as local monopoly producers.

The consequences are most clearly seen in once thriving towns like Starachowice, 130km south of Warsaw, where 80 per cent of the 60,000 inhabitants used to be directly or indirectly employed making parts for or assembling Star trucks. Two years ago, before Poland's "round-table negotiations" between Solidarity and the ruling Communists led to the Communist Party's humiliating moral defeat in the elections, the Star plant was turning out a steady 14,000 trucks of between seven and 11 tonne gross weight a year. A decade ago, after new engines manufactured under licence from MAN of West Germany were introduced, the plant turned out 24,000 vehicles.

That theoretical capacity remains. But now the cavernous assembly halls are silent except for a burst of activity at the far end of one of the halls where the engine and chassis come together on the tiny number of trucks still being produced. This year output is expected to have declined to around 1,600 vehicles. Employment, from 9,000 in 1989, has fallen to 5,000 this year and will fall to 3,500 next year. It is a similar story in the iron foundry and component factories scattered around the town.

*Plants such as Star never* had to worry about sales in the old days. The army took as many four- or six-wheel variants as it needed and specially modified trucks with low temperature starting devices were shipped to the Soviet Union. Sales of the run of factory production were taken care of by the relevant state trading company which "sold" them to state farms, state-owned factories or Comecon partners. All Star management had *to do* was to produce as many trucks as possible.

Under the circumstances there was little need for product renovation or market research. That cosy world came to an end after January 1, 1990 when the zloty became internally convertible and the government introduced a harsh economic stabilisation programme which included import liberalisation.

The programme curbed hyper-inflation and stimulated an extraordinary expansion of private sector activity, especially in trade. But it left the government short of funds and led to a reduction in the output of the large state-owned factories which still dominate the Polish industry economy.

The sharp decline in industrial production and farm incomes led to an even steeper decline in investment – and in the demand for trucks, or at least for the sort of trucks made by Star. Instead, what *emerged was a high demand* for smaller, lighter, faster and more economical trucks from the new entrepreneurs who, over the past two years, have taken over nearly 80 per cent of the former state-owned retail outlets and revolutionised foreign trade.

Thanks to import liberalisation and a steadily appreciating zloty most of the new entrepreneurs opted to buy new or second-hand western *trucks and vans. Once they* made their first profits they then went on to buy a western car, starting with a modest second-hand model but rising to top of the range Porsche and Mercedes models for the small but increasing number of new millionaires.

This pattern is not unique to *Poland but is also to be found* in Hungary and Czechoslovakia which are the three most advanced of the former Comecon countries and will become associate members of the European Community next year. The phenomenon is less marked in Albania, Romania and Bulgaria because they are poorer and economic reform is slower to get off the ground. But in all countries the old domestic monopolies are doomed unless they can get injections of capital, technology and management skill from foreign partners.

This is the basic background to the search for tie-ups with foreign partners throughout *the region, not only in truck* and vehicle assembly but throughout the whole range of engines and components. In the specific case of Star the Polishprivatisation ministry invited Volvo, Fiat and other western producers to the Star plant but failed to extract any useful offer. Given the poor state of the truck market generally, most western producers are more interested in increasing market share and see east*ern Europe more as a place to* sell trucks than to manufacture them.

Given the social problems attached to closing down truck plants in virtual company towns such as Starachowice, however, governments in the region are being forced to keep at least a reduced level of pro*duction going while looking for* new ways of diversifying into other forms of production.

Star, for example, has decided to produce smaller trucks of less than six tonnes gross weight, importing lightweight Perkins diesel engines from the UK to do so. Prospects look better, however, at Jelcz, Poland's other leader truck producer, where Volvo recently signed a letter of intent for future co-operation.

Faced with the social problems caused by plant closures, governments throughout the region are under increasing pressure to grant a degree of tariff protection for domestic producers. The hope is that *this will also help to persuade* western manufacturers to take advantage of the low wages and skilled labour force to relocate at least part of their production to the region.

This is not the case in former East Germany where the original truck industry, based on the old IFA Kombinat, has virtually sunk without trace. It has been subsumed into Mercedes-Benz which is building a new $660m plant at Ludwigsfelde. In Czechoslovakia, however, the high technical quality of the local Tatra trucks has been recognised by significant sales to new markets such as Saudi Arabia and by sharp competition between Mercedes-Benz and Iveco for some form of partnership. More than 80 *per cent of Tatra's heavy duty* trucks are exported, with the bulk traditionally going to the Soviet market where Tatra has now set up four joint venture servicing facilities, including one in the Tyumen oilfields. An agreement with one or other potential partner is expected before the end of the year.

MAN and Mercedes have been among the most active over the years in licensing their engines for trucks and buses where Ikarus of Hungary is the main producer in the region.

But one of the biggest potential engine deals in the region has recently been made by Cummins of the US which has entered into a joint venture with Kamaz, the largest heavy truck manufacturer in the world. The Soviet truck maker badly needs a new fuel efficient and, above all, ecologically friendly engine if it is to find new markets in Europe and in developing countries *where its relatively cheap and* rugged vehicles would be at home.

Profile: KAMAZ

# Pillar of the economy

AT THE point where the cab assembly meets the chassis and driveshaft at the giant Kamaz truck plant at Naberezhnye Chelny, 650 miles east of Moscow, stands a strong man with a crowbar. Sometimes the fit is fortuitously smooth. If not, the cab is helped into place with a resounding crack of the crowbar.

A quality inspector is stationed at this crucial point in the world's largest truck assembly plant. If needed, he also puts his not inconsiderable shoulder to the task of marrying cab and chassis. In spite of the millions of dollars of western plant and computer equipment at the plant some things are still done in the traditional Russian way.

After more than a decade of turning out the same limited range of basic diesel-engined trucks, however, things are starting to change at Kamaz. The days when the all-powerful centre decided multi-billion rouble prestige investments to crown every succeeding five-year plan are as dead as the central planning system itself.

Now the race is on to try and build a new economy out of the ruins of the old, without destroying at the same time those few pillars of the economy which actually turn out goods or services sorely *needed for rapid development* of the hitherto neglected civilian economy.

Kamaz assembly line: things are starting to change

Kamaz, which was designed to produce 150,000 trucks and 200,000 engines a year, is one of those pillars. *Starved of* working capital and denied the right to build up its own depreciation reserve, the new-look corporation's re-invigorated new management is now raising fresh capital from domestic shareholders and seeking out foreign partners.

The formal transformation from Soviet state enterprise to limited liability share company took place last year with the creation of 47m ordinary shares of Rbs100 ($57.6) nominal value. This is equivalent to the Rbs4.7bn original investment at 1971 prices. The 57 per cent shareholding of the defunct Soviet state will be redistributed to the republics while 13 per *cent of the shares* will probably remain with the autonomous republic of Tatarstan as effective "landlord" of the factory site and town of 500,000 people.

The remaining 30 per cent are held by 1,200 suppliers or main customers for the trucks. The company is planning to raise Rbs300m in fresh capital by issuing new shares to the public and to workers. Part of the attraction of the new financial structure is that it also facilitates the sale of minority shares in the company to future foreign partners or investors.

However, the main priority is to seek new partners to modernise the cab and engine. Negotiations are taking place with Cummins engines of the US which is exploring the possibility of putting its engines into Kamaz trucks destined for hard currency markets.

Co-operation with foreign companies is nothing new to Kamaz. It originally tried to attract Ford and Mack Trucks of the US to act as general *contractors to the project* back in the late 1960s when it was being planned. The original conception fell foul of strategic worries by the Pentagon and the US companies' own doubts about a project which dwarfed the largest US and European truck plants.

In the end, the Soviet authorities decided to go it alone but more than 700 foreign companies eventually won contracts worth $1.5bn to build key parts of the plant.

The largest single contract went to Renault for much of the engine plant while Pullman-Swindell of the US won a $125m contract for the high-tech forge and foundry complex *and IBM received export* licences for a powerful production control computer system. IBM's permission to deliver subsequent spare parts, however, was revoked after Kamaz trucks were sent into Afghanistan with the invading Soviet troops.

For nearly a decade, Kamaz turned out up to 120,000 trucks a year but growing more outdated by international standards and hobbled by an engine which was not only polluting by world standards but at around 200,000km also was capable of less than half the average working life of western equivalents.

Now the political climate has changed. Kamaz is hoping once again to become a Mecca for foreign truck makers looking not only for contracts but for partnership with the largest truck maker in the world.

**Anthony Robinson**

# Heart transplants

Continued from previous page

try's point of view, suggests Mr Schacht, is that these developments will be coinciding with EC legislative requirements for the manufacturers to meet Draconian new exhaust emissions legislation for 1998 which will need research and development spending at a much higher level than required for meeting tighter emissions limits already scheduled for 1994.

Under these circumstances, Cummins believes, truck makers may have no option but to start out-sourcing engines. It also believes that the crucial period for decision-making will be over by before the end of next year, by when most manufacturers will have had to commit their next generations of trucks to the development stage.

Naturally, Cummins believes itself well placed to take advantage of out-sourcing decisions.

Financially, Cummins has taken a battering from the recession in key truck and other diesel-using markets and is making losses.

It has, however, stuck firmly to its view that decisions must be made for the long term.

So, while Cummins has been heavily restructured in a major drive to reduce costs, cut prices and better prepare it for battle against eventual Japanese competition, research and development spending has been maintained at close to $200m annually. Mr Schacht's reasoning is that the moment Cummins's technological grasp slips – particularly in the ever more costly field of emissions – so will its market presence.

Meanwhile, the big component groups are resigned to at least another year of most European markets, with the exception of Germany, remaining relatively depressed, with the UK a particular problem area.

"The UK truck industry is probably in a worse state than 1981," according to Eaton's Alan Best. "Mainland Europe has not been too bad but we've been hit in the UK, which was our biggest market. Germany has been best placed because of reunification, with a huge pipeline filling operation needing to be done. But it's been vertically-integrated companies like Daimer-Benz and MAN which have largely benefited".

He acknowledges the cyclical nature of the business and that ordinarily "you can't worry too much about the numbers". However, the UK industry has "almost gone out of existence", be complains.

Perceived as a particular problem is that the other European economies went into a downturn after the UK and are unlikely to pick up again until after the UK.

To counteract regional cycles, Eaton has restructured itself in recognition of the need to cater to a global truck industry.

In Europe, a consolidation is going on which will take until next spring and involves rationalisation of manufacturing facilities and reorganisation of product manufacturing. Eaton will have lost 250-300 people by then, representing 15 per cent of its European work force.

The cutbacks would have been sharper were it not for the fact that the US market is absorbing axles from Eaton's Spanish plants and transmissions from the UK.

One consequence, says Mr Best, is that "break-even is down by many millions of dollars".

Nevertheless, he expects recovery to be a slow and tortuous process until well into 93.

In the UK, in particular, he suggests: "I don't think ministers understand the long-term damage inflicted by government actions to the industry as a whole. They have got to realise the difference between assets – people and fixed. When the economy recovers, we can't put it all back – so there'll be a big capacity suck from elsewhere. "There's better co-ordination in other countries. We got into a mess because economic expansion came too rapidly and the response was equally Draconian – huge, quantum leaps of interest rates blew the brains of manufacturing industry.

"If any government, of any colour, learns anything from this, it should be that the manufacturing base is slow to build, quick to destroy."

**John Griffiths**

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US HEAVY TRUCKS

# Sales slip continues

INSTEAD of the widely-expected recovery in 1991, the US heavy truck industry is suffering from a second year of slumping sales with little prospect of a real upturn in the year ahead.

Production cuts and lay-offs now seem like part of the normal pattern of business in the US, the world's single largest heavy truck market, as the industry tries to cope with competition, over-capacity, and sinking sales.

There are, however, some signs that the worst may be over in the US. In September retail sales of class 8 trucks fell only 8.3 per cent after plunging 26.9 per cent in August. For the first *nine months of the year*, sales of class 8 vehicles were off 22.3 per cent at 72,021, according to figures from the Motor Vehicle Manufacturers' Association.

Sales of heavy trucks are still lagging behind the overall market, where total truck sales actually rose 4.6 per cent in September and were down a more moderate 12.6 per cent to 2.92m for the first nine months of the year.

Part of the heavy truck industry's troubles can be blamed directly on the recession. The impact of declining sales, however, has been magnified by the increased capacity that came on-stream in the 1980s when conventional wisdom was that retail sales in the US would hold in the 125,000 to 135,000 range and would never slip below the 100,000 level. Sales for 1991 are expected to be about 109,000.

The oversupply and increased competition have led to some manufacturers taking drastic steps, *such as* guaranteeing trade-in allowances, in attempts to buy market share.

Although these measure have cut into earnings, many analysts believe it important for truck makers to maintain a strong share of the market. According to Mr Steven Colbert, an analyst at Prudential Bache, "companies whose market share falls below 10 per cent have trouble staying in *this business. You* need enough market share to have volume to cover costs. Companies such as Ford, Mack and Volvo appear to be marginal."

In the year to date, Ford's market share was 8.7 per cent, Mack's was 10.8 per cent and Volvo's 11.7 per cent. This compares with 22.4 per cent share of the retail market for Paccar in September and 18.1 per cent for Navistar in September.

In spite of slipping sales and lower profits, Paccar, which makes Peterbilt and Kenworth trucks, remains one of the stronger players in the North American heavy truck market. Part of the company's continued strength is attributed to *the quality and dependability* of its heavy trucks. Paccar is less vertically-integrated than some of its main competitors, which has also benefited the company.

For the first nine months of 1991, Paccar had sales of $1.56bn against $1.91bn in the same period of 1990. Earnings, before a change in accounting methods, dropped to $20.6m from $57.9m.

*The nine-month figures* mask an improved third quarter, where profits rose to $17m from $14m. Indeed, the company has only had one quarter in the red, when it lost 15 cents a share in the first three months of this year. Paccar says it is seeing a gradual improvement in business activity as the year wanes.

Navistar, in contrast, turned in a net loss of $98m on sales of $2.49bn in the first nine months of 1991 compared with a deficit of $4m on sales of $2.73bn from manufacturing a year earlier.

*Although the company has* increased its share of the North American heavy- and medium-weight truck market to 28.8 per cent from 26.8 per cent in the 1990 third quarter, the company shows little sign of an upturn.

Part of Navistar's problems stem from the high fixed costs associated with being vertically integrated. But Navistar is also bearing the burden of its International Harvester days.

Although the company has *substantially* reduced its workforce since it left the farm equipment business, Navistar is still paying healthcare benefits costs for former International Harvester employees. "Navistar's performance would be closer to Paccar's without this," said Mr Colbert.

Lower truck demand, fierce competition *and increased* costs for labour, materials and purchased components, have offset Navistar's cost improvement measures which are expected to save the company $167m a year.

To cope with the drop in demand, Navistar plans to reduce its production schedules. During the third quarter, the company had one unscheduled week *of suspended assem*bly plant operations to balance production with lower demand. In the fourth quarter, Navistar expects that it will suspend assembly operations for four to five unscheduled weeks.

Paccar Kenworth: one of the stronger players in North America

Mack has also been hit hard by the recession. The company became a wholly-owned subsidiary of France's Renault Véhicules Industriels (RVI), the *commercial vehicles subsidiary* of Renault of France, in 1990.

In spite of Renault's efforts to revive its US truck subsidiary, including reorganising top management and reducing the workforce, Mack is mired in the red and the company is losing market share. Some analysts believe that Renault still has not done enough to restructure Mack's capacity. In addition, Mack's primary market remains off-road vehicles, the sales of which have fallen in tandem with the drop in construction in the US.

This year has been particularly hard on Ford's heavy truck operations. The company's class 8 sales in August plunged 48.4 per cent to 518 compared with a year ago. In the first eight months of 1991 they fell 40.9 per cent to 5,546.

Ford remains primarily a passenger car maker and its commitment to the heavy truck industry is not as heavy as other manufacturers. According to some analysts, Ford's main problem is that it has not been able to differentiate itself in the marketplace.

The latest industry sales figures may give some reason to hope that the *worst is now* over, but there is little cause for optimism in 1992. Analysts are hoping to see increases of about 20 per cent in retail sales next year, but with a projected 22 per cent decline for the whole of 1991, "that would be a more sluggish upturn than we have seen historically", said Mr Colbert.

Although there are few bulls in the US heavy truck industry for 1992, there is *one wild card* which may boost sales in 1993. Tighter emission regulations *are scheduled* for 1994, and there may be a bout of buying ahead of the changes.

**Karen Zagor**

The Japanese truck market is feeling the pinch, says **Neil Weinberg**

# High-tech battle looms on the home front

THE Japanese truck market is feeling the pinch of slumping demand at home and around the Pacific Rim at a time when production has already fallen at double-digit rates for two years running. To further complicate matters, the nation's four large manufacturers – *Hino, Mitsubishi Motors, Nissan* Diesel and Isuzu – are being forced to invest heavily to meet stringent domestic emissions standards.

Unlike its world-beating passenger car firms, Japan's truck makers lag behind their US rivals in total output. Last year the industry turned out *3.53m trucks and buses*, compared to 3.7m for the US and 4.6m for all of North America, according to the Japan Automobile Manufacturers Association (JAMA), an industry trade group.

The home market scooped up 74 per cent of unit sales in the first seven months of 1991. However, domestic sales of "ordinary" trucks, classified as 3.5 tonnes and larger, will retreat around 10 per cent in the fiscal year through next to around 170,000 units, industry sources predict. Exports of ordinary trucks, which comprise about three-quarters of that market, are expected to decline at a similar rate with North American demand still weak. Total overseas sales are *likewise falling*.

Although 1991 is hardly shaping up as a banner year, all is not gloom and doom. Domestic small truck sales rose 4.7 per cent in the first half of 1991. And while demand for ordinary trucks has gone into reverse, it will still remain near a historical peak rather than plummet over a cliff as they did during the oil shock a decade ago, says Hino spokesman Mr Eikichi Inoue.

"Even if private investment slows down truck demand will remain at a relatively high level," he says. Truck demand is also certain to accelerate as *the government spends* Y430,000bn on public works projects over the next decade.

Japan's just-in-time factory and shop distribution systems and rapid expansion of convenience store and other high-volume retail chains over the past several years have powered truck sales, notes JAMA's *Mr Shigeru Ookoshi. However*, such demand-driven gains may be reaching their limits as the side effects mount. Fouled air,

> Unlike its world-beating car firms, Japan's truck makers lag behind their US rivals

severe urban road congestion and additional strains on an already tight labour market have already prompted the Ministry of International Trade and Industry to look into ways of rationalising the trucking and distribution industries.

As manufacturers seek to *pull ahead in a stalled market*, earnings will suffer. The two dedicated truck makers, Hino and Nissan Diesel, will see sales slip 0.3 per cent and 1 per cent respectively, forecasts Mr Peter Boardman, an auto industry analyst with Credit Lyonnais Securities (Japan). Net profits are in for much larger declines of 36 per cent and 18 per cent, he adds.

Isuzu, whose total output including passenger cars plunged 15.6 per cent in the first seven months of 1991, is facing heavy losses this year as well as the need to increase capital investment drastically after skimping in recent years. *Mitsubishi Motors* will likely be the only gainer with a 7.1 per cent rise in net profit to Y27bn on passenger car sales.

Over the next few years the struggle for the domestic market will increasingly turn into a high-tech battle, and the companies developing the most efficient low-polluting engines *are likely to prevail*, says Mr Kenny Hyman, an analyst at Barclays de Zoete Wedd Securities in Tokyo.

"The big problem facing the companies is exhaust emissions. They're the first to be effected by stricter standards," he says. "As a result, truck makers have to produce more *environmentally friendly* trucks or they won't be able to do business. It's going to cost them a lot do to it."

Japanese emissions standards are similar to those being implemented in the US and will require from October 1993 that trucks over 2.5 tonnes emit 65 per cent less nitrous oxide than the unregulated 1974 level, compared to 58 per cent less at present.

*A related transport ministry* initiative seeks to replace 1.5m trucks plying the roads of metropolitan Tokyo and Osaka with cleaner burning vehicles. The programme would allow a one-time only extension of registration from 1993 for trucks and buses not meeting the new emissions standards and could *invigorate sales*.

"The shaken [registration] would help out the truck makers quite a bit. The question is how severe the restrictions will be and whether trucking companies will go out and buy new trucks," says Mr Boardman.

Meanwhile, truck manufac*turers are investing heavily* in automation and cleaner-burning engines. Hino alone is planning to increase plant and equipment investment 12 per cent this fiscal year to about Y38bn.

The Toyota affiliate is also pressing ahead with the industry's most promising new anti-*pollution technology, a hybrid* HIMR diesel-electric engine. It taps energy from a vehicle's wheels to charge a battery for electric power generation and reportedly cuts black smoke emissions 70 per cent and nitrous oxide 20-30 per cent. Eventually Hino is expected to license the technology to other *truck and bus makers*.

Hino and Isuzu are also working independently on turbo-charged diesel engines which significantly cut emissions. Other industry projects involve alternative fuels such as methanol and methanol-diesel mixtures. Expanded use of liquefied petroleum gas, which now powers many taxis, would also sharply cut particulate and black smoke emissions.

*With the truck market* likely to remain weak over the next few years, manufacturers are also seeking to beat rivals by improving appearance, comfort and efficiency. Such efforts include maximising cargo space within legal limits on size and height and enhancing access to payload areas to cut labour costs, says Hino's Mr Inoue.

Hino, already the sales leader, managed to increase its market share 0.5 percentage points to 29.5 per cent of unit sales in the fiscal year through March. Mitsubishi Motors also staged a 0.1 percentage point advance to 26.5 per cent and

> The companies developing the most efficient low-polluting engines are likely to prevail

Nissan Diesel a similar gain to 19.8 per cent. The big loser was troubled Isuzu, whose share dropped 0.9 percentage points to 23.3 per cent.

In the export market, where durability is still the key word, total sales have declined each year since 1985. The trend continued in the first seven months of 1991 when overseas shipments of commercial vehicles fell 4.5 per cent from the year-earlier level *to 726,785 units*. Passenger car exports were down a more modest 0.8 per cent during the *same period to 2.6m vehicles*.

Meanwhile, the four leading truck makers have become locked in a fierce fight for the South-East Asian market, which boasts the best growth prospects over the next decade, although *demand has* slackened recently in key markets such as Thailand and *Indonesia. Some 35 per cent of* the 361,000 2.0-3.5 tonne trucks shipped abroad last year were bound for South-East Asia. Europe's share was second at 34 per cent while the *US took in just 3.3 per cent*.

At the top end of the market, North America still accounted for 41 per cent of ordinary truck exports last year, and Japanese manufacturers are keen to expand their still modest presence there. However, they face an uphill fight against entrenched local rivals.

Europe likewise offers little prospect of rapid growth – in *contrast to the outlook for the* Japanese car industry or independent local production, says Mr Hyman. "Demand would not support a Japanese truck maker entering Europe on its own," he says.

Nissan Diesel is nevertheless planning to lead the way in European production via the *Spanish manufacturing opera*tion it took over recently. The facility is due to begin turning *out about 20,000 new model* ordinary trucks annually in 1994.

US LIGHT TRUCKS

# Industry's bright spot

IF THE US truck industry has one bright spot, it is the light truck sector. At a time when recession and overcapacity have wreaked havoc with the truck industry as a whole, light truck sales are generally holding their own and, in some *cases, actually growing*.

In the first nine months of the year, when overall truck sales slumped 12.6 per cent to 2.92m, Class 1 trucks eased only 7.3 per cent to 2.23m while Class 3 actually advanced 1.6 per cent to 15,772. Sales of Class 2 however, bucked the trend by dropping 24.2 per cent to 668,736, *according to data* from the Motor Vehicle Manufacturers Association.

Figures from Jacobs Automotive, a New Jersey-based research company, show a 4 per cent increase in the utility truck market for the 1991 model year, while compact van sales slid only 5 per cent.

"We're still seeing strength in mini-vans and utilities compared with the overall market," said Mr Clifford Swenson, manger of production forecasts at Jacobs Automotive. "But it is nothing like the strength of the early 1980s."

During the roaring 1980s, when the Wall Street boom seemed as though it would never bust and a stream of mergers and acquisitions helped line the pockets of young executives, Jeeps and vans started to replace passenger cars on US city streets. At the same time, utility vehicles and vans started to replace the *station wagon as the car of* choice for the growing families of the baby boom generation.

The growing light truck market has become increasingly important to US vehicle makers, who have been steadily losing ground to foreign competitors in the passenger car market. Higher light truck sales have helped soften the impact of declining car sales.

Ford, for example, increased *annual production capacity for* its Explorer sport utility this summer by 20,000 trucks, bringing production to 270,000 Explorer trucks a year.

Indeed, for most of the 1980s demand for light trucks outpaced manufacturers' ability to supply the market. "We're now seeing a maturing of the market," said Mr Swenson. "Manufacturers have caught up with demand and are able to supply enough to satisfy consumers."

Analysts expect continued demand from growing families *to help prop up sales of utility* vehicles and vans. The rate of growth, however, is expected to keep slowing.

Chrysler has traditionally dominated the utility and mini-van market in the US. Indeed, for many years Chrysler had the market virtually to itself. But Chrysler's strong performance in the area ultimately attracted competitors and Chrysler has been under pres*sure in these two areas for* some time. It is now questioned whether Chrysler will be able to maintain its share of these markets as the competition grows.

Sales of Chrysler's Jeep Cherokee, once the leader of the four-door sports utility market, have started to slide as Ford's Explorer picks up market share.

In the full-size pickup market, General Motors and Ford continue to compete for the number one position. This year, Ford edged out GM's Chevvy, but Ford's sales were bolstered by such heavy incentives that "it was a hollow victory", said Mr Swenson.

In the long term, the biggest question for the US light truck industry is whether the Japanese will be able to translate their success in lighter trucks into the larger class size. Japanese manufacturers are widely credited with developing the *compact truck market* and control more than 40 per cent of the US market.

The full-size pickup market, in contrast, is virtually the exclusive domain of the US big three vehicle makers. With annual sales of more than 1m units, it is an attractive market.

Toyota is reported to be working on a full-size pickup and Nissan is believed to be considering entering the arena. A major deterrent to Japanese *entry into this area, however*, is the lack of a domestic Japanese market for full-size pickup trucks.

Furthermore, US pickup truck drivers tend to be conservative, making the market more resistant than others to non-US manufacturers.

In the short term, the state of the US economy remains the most pressing question for the entire vehicle industry, including *light trucks*. At the beginning of the year it was widely believed that the economy would start improving in the second half.

Although there have been some small signs of recovery, the US recession has so far proved longer and deeper than expected. If there is not a significant improvement in the first half of 1992, even the light truck sector may be forced to *cut production volumes* next year.

**Karen Zagor**



**Alan Bunting** looks at new products and technology

# Electronics makes its mark in trucks

NEW electronic technology was anathema to truck operators, in the UK especially, until they were forced, initially as the result of anti-skid brake legislation, to accept "black boxes", sensors and solenoid valves.

There remains a deep distrust of electronic components among many older fleet engineers, who were brought up to *equate visible simplicity* with reliability and ease of repair when problems arose. But *their fears are proving to* be groundless. There were teething troubles on the pioneering EPS electronic truck gearshift system from Mercedes-Benz for example. But in most instances the faults were traced to simple electrical connections rather than to the solid-state components at the heart of the system.

Truck operators, especially those with their own workshops, manned by skilled and experienced fitters and electricians, are also quite understandably apprehensive at the perceived complexities of fault-finding in electronic systems. Will a faulty vehicle, they ask themselves, have to be taken into the local dealer, at unknown monetary and downtime cost?

In recognition of such fears, manufacturers are now placing more emphasis on diagnostics, enabling users to trace and rectify *faults* easily and rapidly. Volvo, whose Geartronic assisted gearshift system for heavy trucks was launched in September, has written a computer software programme allowing the system's electronic components, wiring and connections to be functionally checked using an inexpensive standard laptop computer.

Scania, also from Sweden, pioneered finger-tip gearshifting for trucks in the mid-80s using, like all subsequent *rivals, brake system com*pressed air to provide the "muscle" normally demanded *from the driver's left arm*. Electronics become an essential adjunct, to prevent abuse and gear tooth damage and, in the more automated systems, to determine optimum gearchange conditions.

Elimination of the pedal from the otherwise standard clutch installation, has now become technically feasible. It is a development which enables the mechanical gearbox to mimic the familiar car-type automatic transmission, admittedly without achieving quite the same shift smoothness, but at a much lower cost and weight and without the fuel consumption penalty of a torque converter.

It has presented a formidable engineering challenge, which can be met only with an onboard microprocessor, able to simulate, particularly when starting away up a gradient at an all-up weight of perhaps 40 *tonnes or more, the driver's* skill in judging the rate of clutch "bite" as engine revs are increased through the accelerator pedal.

Fichtel & Sachs of Germany, Europe's biggest maker of clutches for trucks, launched its ACS pedal-less clutch earlier this year. But competition *has arisen from* some unexpected quarters. *ZF*, the German gearbox producer has

> Manufacturers are now placing emphasis on diagnostics

developed four alternative assisted-shift versions of its Ecosplit 16-speed transmission, two of which also include automated clutch actuation.

Rival gearbox maker Eaton is also in contention. The US-owned company's UK-based engineers have developed a two-pedal transmission designated AMT which has undergone extensive trials and is ready to go into production should volume demand arise.

Volvo, as ever reluctant to increase its dependence on outside suppliers, has chosen to develop its clutch pedal-less finger-tip Geartronic shift system entirely in-house. Mercedes is another truck builder now following the same philosophy; a version of EPS with no clutch pedal is on trial.

New technology, inevitably making extensive use of electronics, is also beginning to make an impact on truck diesel engines, specifically on their fuel-injection equipment. Scania was the first manufacturer to fit an injection pump – supplied by Bosch – with an electronic governor. It continuously regulates the amount of fuel squirted into the combustion chamber, in accordance with engine demand, so that performance and fuel consumption are *optimised* at all engine speeds and loadings.

Progressively tougher commercial vehicle exhaust emissions legislation coming into force in two stages over the next *five* years will, in the view of many diesel engineers, make electronic fuel control unavoidable. In *Europe*, Cummins is leading the way, with its Celect injection system, which controls injection timing as well as fuel quantity – a key element in reducing the two most obstinate categories of exhaust pollutant, namely oxides of nitrogen and particulates (mainly soot).

Celect retains Cummins's long-established principle of mechanical, or "unit", injector operation; extra cams on the main engine camshaft actuate the injectors, through rockers and pushrods.

The Cummins design differs from its outwardly similar, but in fact simpler, Detroit Diesel and Lucas system rivals – the latter fitted so far only on a 10.3-litre American Caterpillar engine – in embodying two interactive plungers, which regulate metering (fuel quantity) and timing. All three new-generation unit-injectors embody an electronically-controlled spill valve.

Mercedes-Benz of Germany is buying *US unit-injection* know-how, having just signed an agreement with the privately-owned *Detroit Diesel* company, which will lead to a range of fuel-efficient, low-emission *Mercedes* diesels – necessarily new "from the sump up" – being launched in the middle of the decade.

Interestingly, some of the new technology projected for truck diesels a *decade ago* has not materialised in production engines. Advanced non-metallic materials, notably ceramics, which with their excellent heat resistance and insulation properties, were *seen to* have important potential in piston crowns and valve heads, have been eclipsed. Emissions legislation has worked against them. The higher combustion temperatures which ceramics make possible are good for fuel efficiency, but unfortunately they promote the formation of pollutant nitrogen oxides in the exhaust gases.